

**PRESSURE FOR INTEGRATION WITHIN THE COUNCIL
FOR MUTUAL ECONOMIC ASSISTANCE: ECONOMIC
FACTORS WITHIN POLITICAL DECISION-MAKING
WITH A SPECIAL REFERENCE TO POLAND**

by

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Statement

I hereby declare that this thesis has not already been accepted in substance for any degree. It is the result of my own independent investigation, and all authorities and sources which have been consulted are acknowledged in the bibliography and notes.

Signed.....

Galim *Leht-Luoma*

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ABBREVIATIONS

CC	Central Committee
CMEA	Council For Mutual Economic Assistance
CPSU	Communist Party of the Soviet Union
CP	Comprehensive Program
CPSTP	Comprehensive Program for the Scientific and Technical Progress of the CMEA Member-Countries up to the Year 2000
EEC	European Economic Community
IIB	International Investment Bank
ISDL	International Socialist Division of Labor
PZPR	Polish United Workers Party
SEI	Socialist Economic Integration

INTRODUCTION

The subject of this thesis is Soviet pressure for economic cooperation and integration within the Council for Mutual Economic Assistance (CMEA), an organisation for economic cooperation of Soviet bloc countries, from its establishment in 1949 until its dissolution in 1991, and the explanation of the causes of the persistent failure of Soviet attempts to integrate East European economies.

The economic integration of CMEA countries was not based on a voluntary agreement among interested states, but was an integral part of the Soviet Union's policy of political and ideological domination over other members of the Soviet bloc. This thesis evaluates the impact of the subordination of East European countries on the strategies, structures, processes and outcomes of integration. In the following discussion of the dynamics of the interrelationship of political and economic factors within CMEA, the central issue is the relative importance of economic, as opposed to political, criteria in the Soviet pressure for integration within CMEA.

This thesis examines the Soviet Union's relations with Eastern European countries as a function of the following interrelated Soviet political objectives: to ensure the stability and legitimacy of its own socio-economic and political system, to protect its political, economic and ideological interests within the region through the maintenance of Soviet control in the region, and to maintain its international position.

The central argument of this thesis is that as a result of these political considerations the decision-making criteria of the Soviet Union with regard to economic integration within CMEA were primarily political, i.e. the basic criterion applied in the determination of CMEA objectives and mechanisms of cooperation

was their contribution to the maintenance of the Soviet system of domination in Eastern Europe and to securing the political stability of the Soviet domestic system, rather than the economic criteria of efficiency of mechanisms of cooperation and of economic profitability of cooperation.

I demonstrate that as a result of the primacy of political criteria in decision-making, CMEA objectives and strategies were aimed primarily at the strengthening of the Soviet Union's political position in the region and the perpetuation of the political subordination of East European states through the expansion of Soviet control over their economic policies. In other words, CMEA economic cooperation was to create levers of Soviet influence over CMEA members' economic decisions, thus enhancing the Soviet Union's political leverage.

Consequently, in order to achieve these objectives CMEA mechanisms and forms of cooperation were designed primarily as means of securing the Soviet Union's dominant position in the economic activities of the bloc through subordinating East European economic planning to Soviet economic priorities, forcing Eastern Europe into a relationship of dependency on the Soviet Union and the formation and consolidation of a separate socialist market with its concomitant objective of weakening of links with the West.

Moreover, in accordance with the Soviet objective of ensuring stability of its domestic political system, another political criterion in CMEA decision-making was the requirement that CMEA mechanisms of cooperation conform with the principles of the Soviet model, in particular the public ownership of the means of production and planned management. The conformity to the management structures of the Soviet national economic system was considered by the Soviet leadership as an essential element legitimising the Soviet Union's authority in intra-bloc relations and the basis for the bloc's ideological cohesion.

The argument that political criteria were of critical importance in CMEA decision-making does not mean that CMEA was set up for purely political purposes. The discussion demonstrates that in Soviet calculations there was also an economic dimension, and economic considerations played a major role in the formulation and implementation of CMEA strategies. From the beginning, a long-term Soviet objective was to ensure that CMEA strategies were subordinated to the requirements of Soviet economic policy. Since the late 1950s CMEA economic agenda had included the implementation of the regional division of labor based on specialization and cooperation in industrial production, and the rational utilization of the scientific and technical resources of the CMEA countries, the improvement of the quality and the technological level of production and the creation of an internationally competitive industrial sector in CMEA countries. In addition, specific Soviet economic concerns included ensuring the contribution of East European members to the Soviet economic development program, rendering the existing model of cooperation more profitable from the point of view of Soviet interests and the transformation of the composition and quality of intra-CMEA trade in favour of Soviet needs.

I argued, however, that even though economic considerations have played a major role in determining CMEA cooperation strategies, they were consistently subordinated to political considerations; that is CMEA objectives and mechanisms could not conflict with Soviet political objectives in the region and were seen as a useful, or necessary instrument in the achievement of these political goals.

The dominance of political criteria in defining what constituted functional behaviour meant, moreover, that the CMEA did not have effective mechanisms of cooperation to implement these objectives. This was due to the fact that the principles underlying CMEA cooperation, dictated by the logic of securing the Soviet Union's political position, were more important than the potential economic

benefits which could be obtained through the introduction of efficient mechanisms of cooperation which would have provided economic incentives for the development of production for export and a rational basis for the allocation of resources and intra-branch specialisation.

The discussion in this thesis shows that the Soviet policy of economic integration with Eastern Europe was a primary foreign policy objective of the Soviet leadership which involved formulation of several major programs and the creation of a substantial organisational structure supporting the operation of CMEA. Despite these political measures aimed at the development of economic ties within CMEA, and the Soviet Union's success in determining CMEA strategies and its mechanisms of cooperation the Soviet Union was, however, unable, apart from the early years under Stalin's rule, to implement successfully these policies of integration.

In order to provide an explanation of the failure of the Soviet policy of integration the discussion in the thesis is focused on two main areas of CMEA operation. The first area is concerned with Soviet measures aimed at the development of economic ties among CMEA member countries and the factors determining CMEA objectives and mechanisms of cooperation. I examine the dynamics of the process of economic subordination of Eastern Europe as a part of the Soviet Union's policy of maintaining control over the region, and changing Soviet perceptions of Eastern Europe's importance in its strategic, political and economic calculations. I show that the role of CMEA was subordinated to the Soviet Union's domestic and foreign policy objectives and was consistent with other methods of bloc management such as pressure on uniformity of political and economic systems and subordination through direct Soviet interference in the political and economic affairs of satellite countries. I also discuss the relative importance of economic factors in Soviet political decision-making regarding intra-CMEA economic relations i.e. considerations of economic profitability in the maintenance of the CMEA model of cooperation.

The second area deals with the process of implementation of CMEA strategies within these systemic constraints. I shall analyse the 'internal logic' of the basic domestic economic mechanisms and CMEA mechanisms and their limitations as effective instruments of cooperation. By identifying the incentives produced by these mechanisms I seek to explain the actual reasons behind those policies and actions of individual countries which tended to hinder the implementation of CMEA programs.

I identify the following factors as direct reasons for the failure of Soviet pressure for integration. First, the deliberate policy choices made by East European members aimed at avoiding commitments to the CMEA in an effort to counteract Soviet measures which were perceived by them as unprofitable, or encroaching upon their sovereignty, or jeopardising their economic stability. Second, the failure by East Europeans to fulfil their obligations because of their limited capacity to invest due to economic difficulties and financial constraints. Third, the inability to respond to Soviet demands due to inherent limitations in the system of management of Soviet bloc countries which inhibited their ability to innovate, to improve the quality of products, to raise technical standards and to develop viable export-oriented industries. Fourth, the lack of interest of all CMEA members in the development of specialisation because of the absence of incentives to invest in new technologies and the cumbersome mechanisms of CMEA cooperation. Fifth, the East Europeans' lack of interest in cooperation because of the Soviet Union's relative technological backwardness.

Thus, I present the outcomes of cooperation as the result of the rational actions of individual countries seeking to maximise the benefits to be derived from cooperation within the constraints imposed on CMEA by Soviet domination and the institutional limitations to integration imposed by the central planning system. I argue that these actions derived from the internal logic of domestic and CMEA mechanisms, which did not provide adequate economic incentives for the development of export-oriented

sectors and for the improvement of quality of manufactures and a rational basis for the allocation of resources. As the institutional arrangements of the economic system of CMEA members were imposed by the Soviet Union, I argue that ultimately, the primary factors responsible for the failure of integration were Soviet political objectives in the region which hampered the creation of the conditions necessary for successful cooperation.

This thesis is divided into five chapters and conclusion.

Chapter 1 is concerned with factors determining functions of the CMEA during the Stalinist period. It argues that the ultimate motives for setting up of the CMEA were primarily political: Stalin's aim was to integrate East European economies with the Soviet Union's by the re-orientation of trade and the formation of industries to engender dependence of East European economies on the Soviet market and resources. In the process, Soviet bloc economies would be isolated from the West. The achievement of economic subordination was perceived to be the best guarantee of ensuring political stability and securing Soviet strategic interests in the region. I demonstrate that the operation of CMEA was constrained by the other main Soviet strategies of managing relations with Eastern Europe: subordination through direct Soviet interference in the political and economic affairs of satellite countries; the standardization of their models of economic development and the imposition of Soviet-type autarkic economic strategy. I argue that within these systemic constraints on the actions of Soviet bloc states and in the conditions of the extremely limited political and economic autonomy of East European states, during the Stalinist period, East European countries could not resist Soviet policies and the Soviet Union was able to succeed in the implementation of its integration policies.

Chapter 2 focuses on the limitations imposed on the process of cooperation by the 'internal logic' of the CMEA's economic mechanisms, principles and procedural

rules. The first section looks at the domestic economic mechanisms of CMEA countries showing that inherent in the logic of their operation was the lack of effective mechanisms for participation in the international division of labor. Thus they lacked effective instruments for adjusting economic directions to the requirements of external markets. There were insufficient incentives to develop export-oriented sectors, such as mechanisms necessary for the assessment of comparative advantages and for determining areas of specialisation. The second section examines the principles of formation and the functions of CMEA instruments of cooperation. It identifies the main limitations of the CMEA mechanism, namely rigid bilateralism, chronic problems related to currency inconvertibility, and lack of instruments to determine the effectiveness of foreign trade and provide incentives for production specialisation showing that they were consistent with the principles of the domestic mechanisms of the Soviet model of centrally planned economy. The third section addresses the issues of the relative 'fairness' of CMEA mechanisms defined in literature in terms of 'exploitation or subsidization'. By this, I mean the extent to which CMEA members might have derived any 'special' political and economic advantages from cooperation. The analysis shows that the Soviet Union did not design 'implicit subsidies' related to trading with Eastern Europe at allegedly subsidised prices as a political tool of pressure. However, the analysis of negotiations of trade and specialisation agreements demonstrates conclusively that the terms of cooperation were determined by the political and strategic importance of the region and that the Soviet Union consistently used CMEA mechanisms for structural subordination of East European economies and thus as an indirect instrument of political control.

The fourth section is concerned with organisational principles, formal CMEA organisational structures, and informal bodies involved in the decision-making process. It examines the powers and functions of CMEA organs and their relationships with national planning agencies and other bodies directly responsible for

particular spheres of economic and scientific-technological activity in each member country. It contrasts the limited authority of formal CMEA bodies, which lacked powers to enforce the implementation of CMEA recommendations, with the formal political and economic autonomy of the national authorities of CMEA members. It demonstrates that those CMEA principles and procedures which guaranteed the preservation of the sovereign rights of member states in the process of economic cooperation were a major impediment to the development and implementation of CMEA strategies. This guarantee of sovereignty allowed East European members to defend their national economic interests and thus to limit cooperation to those forms which would not conflict with the preservation of formal economic sovereignty. Thus the rules of CMEA operation provided opportunities for smaller countries to resist direct Soviet interference. They gave individual members substantial control over their economies despite Soviet political dominance and forced the Soviet Union to rely on other means of pressure.

In the next part of the thesis I will describe how this 'internal logic' of CMEA mechanisms and rules produced coherent outcomes in the process of CMEA cooperation. I will demonstrate how, on the one hand, these mechanisms and principles of operation constrained CMEA cooperation, and how, on the other hand, CMEA members could use these instruments for their own benefit to maximise their advantages from cooperation, while failing to fulfil commitments which they perceived as disadvantageous or unfair.

Chapter 3 discusses determinants of the formulation and implementation of CMEA strategies of cooperation in the years 1953-1984. It examines CMEA objectives and the postulated mechanisms for their implementation as outlined in the programmatic documents and contrasts them with the actual political and economic functions of CMEA. The chapter looks at the direct reasons for the failure of the policy of cooperation, including factors, such as CMEA members' lack of interest in

the development of specialisation and cooperation agreements, and problems with the fulfilment of commitments because of financial constraints and shortages. It then identifies the underlying causes of the problems which prevented the achievement of CMEA objectives and shows that these were partly a consequence of the limitations of domestic and CMEA economic mechanisms, which did not provide incentives to undertake specialisation, and partly the result of East European resistance to Soviet measures which imposed unfair terms of cooperation. By demonstrating that the problems with the implementation of CMEA strategies derived from the internal logic of the Soviet-type model and its consequences as well as from the Soviet Union's attempts at subordinating CMEA to its objectives, the analysis supports the main argument of this thesis that, ultimately, the factors which were primarily responsible for the failure of the CMEA were the constraints on its operation imposed as a result of the primacy of political criteria in Soviet decision-making.

Chapters 4 and 5 examine CMEA's role in Soviet bloc politics and the attempts at reform of the CMEA undertaken from 1985 until 1991 by Gorbachev. Chapter 4 describes the proposed objectives and methods of CMEA cooperation as an integral part of Gorbachev's strategy to redefine the relationship with Eastern Europe and to increase the economic contribution of the region to Soviet objectives. It also discusses the impact of the increase in political autonomy of East European countries on the politics of integration.

Chapter 5 assesses the implementation of two main Gorbachev's initiatives: the Comprehensive Program for the Scientific and Technical Progress of the CMEA Member-Countries up to the Year 2000 (CPSTP), and the campaign to develop direct cooperation between enterprises. The discussion demonstrates that the failure of these two major strategies was the result of inadequate domestic and CMEA economic mechanisms which did not provide incentives for East Europeans to participate, the lack of organisational and economic conditions necessary for the postulated

functioning of CMEA mechanisms and a conflict between the economic interests of the East European countries and the requirements of Soviet policy. Moreover, East European's reasons to avoid commitment to CMEA were related to their own economic difficulties and lack of prospects that any further investment in CMEA would decrease the technological gap between East and West in view of the Soviet Union's relative technological backwardness.

Another approach to the analysis of the reasons for CMEA's failure is the application of regional integration models to the study of CMEA integration. As convincingly argued elsewhere (Korbonski in Marer, P. and J. M. Montias, eds. 1980, 356-8) using Western integration theories to the study of Soviet bloc integration processes can be regarded as a legitimate method which provides a useful analytical tool for making comparisons. In this thesis I will therefore examine CMEA experience against the background of existing theories of regional integration which outline the conditions necessary for successful integration. While the CMEA practice defies almost all of it, that in itself provides grounds for comparisons that highlight the reasons for CMEA's failure.

The process of economic cooperation of Soviet bloc countries was one of several attempts at regional integration undertaken in different parts of the world in the post-war period. Regional economic groupings have also been formed in Western Europe, Latin America, the Caribbean, Southeast Asia, West, East and Southern Africa and, since 1989, in North America. Integration has been seen by participating countries as a means to the improvement of the performance of their economies and the strengthening of their economic competitiveness in the world market through more efficient allocation of resources, increased international specialisation and cooperation in production, economies of scale and expanded trade within the region.

The most successful example of these attempts at regional integration has been integration of West European countries. It is the only contemporary regional organisation characterised by strong integrative tendencies in all major spheres of integration: economic, monetary and political, and accompanied by the emergence of a sense of supra-national socio-economic community. In this part of the introduction I will, therefore, briefly examine the evolution of concepts and integration measures in Western Europe and discuss theories aimed at providing an explanation of the dynamics of European integration. The discussion will concentrate on the political, institutional and economic principles underlying Western European integration and will provide an analytical framework for comparisons that highlight the reasons for CMEA's failure.

There is a substantial literature on the subject of regional integration presenting theories of integration and testing against the theoretical background the practice of integration. Theories of economic and political integration have a lineage that dates back at least to the early work of David Mitrany in the 1930s. The basic principles of the concept of economic integration in its current form were developed in the wake of World War II. The concept was initially concerned primarily with processes of economic consultation and cooperation with a view to harmonising economic decisions among members of a regional group, and with the forecasting of the outcomes of national economic policies. Subsequently, standard theories of regional economic integration have defined as the main necessary and sufficient conditions for economic integration the following factors: the complementarity of economic structures of the cooperating countries, technical infrastructure sufficiently developed to permit an increase in the flow of goods and factors of production, and the commitment of participating governments to the pursuit of national economic policies aimed at facilitating the process of integration. Bela Balassa, in his classical study

(1961, 2) on integration theory has distinguished in the process of economic integration the following five consecutive stages:

I. A free trade area which entails the removal of all trade restrictions within the area;

II. A customs union - created when a group of countries removes all restrictions on mutual trade and also adopts a common system of tariffs and quotas with respect to trade with third countries;

III. A common market - created when countries forming a customs union remove all restrictions on the movement of factors of production (goods, persons, services and capital);

IV. An economic (and monetary) union which has all the features of a common market and, in addition, involves the adoption of a joint economic strategy which is based on the close coordination of member states' economic policies and the definition of common objectives, the conduct of a single monetary policy and exchange rate policy, the introduction of a single monetary system, a central bank and a unified fiscal system;

V. A full integration which involves the setting up of supranational economic structures, unification of economic and monetary policies and legislative frameworks of individual states and which entails pressure for political integration leading to a political union.

According to regional integration theorists, progress towards integration can be measured by examining advancement of integrative tendencies in specific spheres of cooperation. Hurwitz (1980, 3-23) has identified three such spheres: institutional, socio-psychological and economic exchanges.

For Hurwitz, a key indicator of the strength of integrative tendencies in the institutional dimension is the scope and significance of the policy areas subject to common decision-making. With regard to the social sphere he suggests that the progress of integration is manifested by an appreciation of the need for, and the willingness to undertake, the necessary changes in political principles and practices. Finally, he argues that the progress of integration in the sphere of economic exchanges is indicated by an increase in the flow of goods, services, capital, labor, technology and capital.

As mentioned earlier, in the contemporary world, out of several attempts at integration, only in one regional grouping - the European Union, have integrative processes manifested themselves in all three dimensions. The integration processes leading to the establishment of the European Union have also by and large followed the stages outlined by Balassa. If present trends continue, analysts predict that its evolution towards a full integration involving economic, monetary and some kind of political union is inevitable.

The idea of Western European integration originated during World War II. It was originally considered in the context of the creation of a security community, where differences between individual states are resolved by peaceful means. Jean Monnet and Robert Schuman, commonly credited with creating the foundation of a European Union were inspired by the idea of creating a European federation - a body that would replace national governments.

The development of postwar European economic cooperation was encouraged by US policy, and in particular by the Marshall Plan of 1948-51 whose implications for Soviet bloc countries will be discussed in Chapter 1. While in the short term the Marshall Plan was to assist in the post-war recovery of Western Europe through financial assistance and provision of capital goods and raw materials, one of its larger

objectives was the creation of permanent political and economic institutions and mechanisms for a closer economic union within Western Europe, leading ultimately to closer political ties and the consolidation of the Western bloc.

The first step towards Western European economic integration was made with the creation in 1952 of the European Coal and Steel Community (ECSC) - a limited economic association including France, Italy, West Germany, Belgium, the Netherlands and Luxembourg. The ECSC was based on a sectoral approach to integration and was concerned with promoting cooperation and increased efficiency of European industry in only one sector - the production and distribution of coal, steel and iron.

The progress in the reconstruction of national economies, an increase in their potential and the improvement of balance of payments led, however, to the revival of concepts of broader economic integration, including all sectors of member economies. As a result, in March 1957, in a move aimed at the expansion of their cooperation, ECSC members signed the Treaty of Rome establishing the European Economic Community (EEC). At the same time they signed a separate Euratom treaty to create the European Atomic Energy Community. The Treaty of Rome set the timetable for the progressive development of a customs union within twelve years.

The next stage in the development of economic integration was reached with the establishment in 1967 of a single European Community (EC) incorporating the three existing economic communities: the EEC, Euratom and the ECSC. The ultimate objective of the EC was the achievement of economic and monetary union.

Despite numerous initiatives undertaken in the 1970s and the first half of the 1980s aimed at the formation of a common market and economic union, progress towards economic integration was stalled by the impact on member economies of two oil crises. The impasse was broken with the signing of the Single European Act

(SEA) in February 1986 amending the Treaty of Rome and setting the objective of the completion of a common market by 1992 with the ultimate goal of establishing an economic and monetary union. In February 1992 West European integration proceeded to the next phase with the signing in Maastricht of the Treaty on European Union which paved the way for the completion of economic and monetary union including the introduction of a single currency, the ecu, and the conduct of a single monetary policy, by 1999 at the latest, and setting up new political structures.

This process of expansion of integration has been the subject of a number of theories seeking to explain the motives of member states and the dynamics of European integration. The most conventional explanation why states cooperate is provided by realism - a school of thought explaining the nature of international relations by referring to competition and conflict among national states. Realists argue that states are the most important actors in integrational relations, and assume that states act rationally and are guided in their actions by self-interest. Realists emphasise the importance of military security as a primary consideration in determining the policies of the states. Realists accordingly see Western economic integration as a process conducted by sovereign states which retain authority over their own affairs, delegate power to new cooperative bodies only when it coincides with their national objectives, and retain the right to take back that power at any time. In short, they believe that the EU exists only because the member states have decided that it can be instrumental in protecting their national interests.

Realism, with its stress on the self-interest of cooperating states, provides, however, only a partial explanation of how the EU has evolved. The major theories of integration attempting to fill in this gap and explain the dynamics of European integration by examining the influence of other factors on the integration processes are federalism, functionalism and neofunctionalism.

For the proponents of federalism the prime factors at work in European integration are institutional structures and processes. The federalists regard them as the actual 'driving forces' behind the development of cooperation, including in the economic sphere. The federalist concept of regional integration is based on the assumption that the participants give up overall sovereignty to a new central authority while retaining a large measure of autonomy over local government. The federalist concept inspired the initial integration schemes proposed by Monnet and Schuman who saw it as the first step in a process that would lead to a political integration replacing national governments.

In practice, however, the European Union is still far from reaching the stage of political integration federalists had envisaged, as the governments of the member states continue to make the key policy decisions and have not yet transferred as many powers to EU institutions as the federalists postulated. They have given up powers over technical, social and economic tasks but have been so far unwilling to give up political powers to the 'governing' body. As Keohane and Hoffmann (1990, 199) have noted, central institutions are largely inter-governmental, more concerned with establishing a common framework than with detailed regulations, and willing to tolerate a vast amount of national diversity in standards and practices through a mutual recognition. Thus, while in comparison with the authority of contemporary international organisations, the community has considerable autonomy, by standards of highly institutionalised modern states, its powers are relatively constrained (Keohane and Hoffmann 1990, 279).

The practice of the EU also does not conform to the conception of integration outlined by the classic functionalist theory, which offers a conflicting view of the nature of inter-state relations to that provided by realists. Functionalism is based on the assumption that the primary goals of states are peace and prosperity, to be achieved by economic instruments and political action. Functionalists place emphasis

on the common interests of integrating states and argue that states cooperate out of need and the motive of integration in Western Europe is mutual convenience or the improvement of economic efficiency.

Functionalism is based on the idea that rather than trying to coordinate major issues such as economic or defense policy at the national level, regional integration can be attained 'by instalments' by means of international organisations with authority in functionally specific fields. Their cooperation in particular sectors of industry would create a network of increasingly stronger international ties and processes which would encourage cooperation in other areas. For example the harmonisation of technical norms would lead to the need for the elaboration of new legal regulations. In short, functionalists argue that integration is a process that has its own internal dynamic which gradually generates conditions under which it is more advantageous for member states to continue their participation in cooperation than to opt out (Haas 1958).

Functionalists, like federalists, envisage a transfer of power to institutions whose authority would not derive from the governments of the member states, and a transfer of political powers to the central authority. They stress, however, the importance of the separation of national political institutions from the cooperation of functionally specific international organisations. They argue that functional changes would lead national governments to adapt their political and administrative institutions to the pressures from sectoral integration from below, ultimately leaving the regulation of political aspects to the supranational authority (Mitrany 1966, 73-84). Economic integration was thus seen as the first step in a long process that would lead to political integration and ultimately to a federal political structure. As Schuman (1992, 58-9) put it in the Declaration of 9 May 1950: 'Europe will not be made all at once or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity.'

Functionalism dominated the theoretical debates explaining the dynamics of European integration throughout the 1950s. It was influential in the first attempts at Western integration embodied in the formation of the ESCS which was based on a belief that cooperation in a specific area of the coal and steel industry would encourage integration in other areas. However, by the end of the 1950s the functional approach was already considered inadequate to explain forces necessary for an expansion of integration. Haas's (1958) study of the ECSC and Lindberg's (1963) of the EEC led to a modification of functionalist theories and the development of neofunctionalism. At the core of the neofunctionalist school is the concept of an expansive logic of sectoral integration, or a 'spillover' effect that Haas saw as being inherent in the ESCS (Haas 1958, 283 ff). Haas defined 'spillover effect' as a situation in which the progress of integration in one sector of individual economies increased the pressure for extended cooperation in related sectors. Haas emphasised however that the process of spillover was far from automatic. Another proponent of neofunctionalism, Nye (1971, 200) defined 'spillover' as a situation in which 'imbalances created by the functional interdependence or inherent linkages of tasks can press political actors to redefine their common tasks'.

Neofunctionalists distinguish between several kinds of 'spillover' depending on the sphere of their operation. The *functional* spillover implies that as a result of the impossibility of isolating one economic sector from another, if states integrate one sector of their economies, this will lead to an increase in the level of cooperation in other sectors. This process will ultimately lead to a complete economic and political union as the growth of many functional international organisations would cause the decline in the relative power of national governments. The *technical* spillover denotes the process leading individual states to adopt uniform standards. The *political* spillover is based on the argument that once different functional sectors become integrated, politics would increasingly be played out at the regional rather than the

national level as transnational interest groups would increasingly press for an increase in the extent of Community decision-making in new areas (George 1990, 21).

Neofunctionalists emphasise that an analysis of forces behind the progress of regional integration has to take into account other elements in addition to the functional linkage of tasks. Haas (1968, xiv-xv) in the revised edition of 'The Uniting of Europe' argued that functional theory had paid too little attention to the influence of external factors such as economic and military threats from the outside, changes in attitudes following the formation of regional organisations and social and political changes taking place separately from the process of integration. Central to the revised neo-functional framework developed by Nye (1971, 208-14) was the notion that the progress of integration depends on forces and process mechanisms that influence political decision-makers to move towards integration. Some of these processes are generated by the establishment of new institutions and some result from previous policy decisions. Nye identified as process mechanisms of crucial importance for the expansion of integration: functional linkage of tasks, rising transactions, coalition formation, elite socialisation, the emergence of regional interest groups, the development of a sense of collective identity and the involvement of external actors. The response of decision-makers to these pressures depends also on the strength of structural and perceptual conditions that taken together constitute the 'integrative potential' of the region or country. The conditions that Nye refers to as 'structural' are determined by factors independent of the integration process, while the 'perceptual' conditions are strongly influenced by the process of integration. 'Structural' conditions include the economic equality or compatibility of the states involved, the nature of a central motive force behind integration efforts, the similarity of values of groups that control economic policy in the member states, the capacity of the member states to adapt and respond to integration pressures and the existence of

pluralism or interest group activity. 'Perceptual' conditions include perceived equity of distribution of benefits, perceived external cogency and low visible costs.

While in comparison with other integration theories, neofunctionalists provided many new insights into the mechanism of expansion of integration, they could not, however, adequately explain unexpected changes in the dynamics of integration, in particular the slowing down of integration processes in the mid-1970s, or a dramatic shift towards centralisation of decision-making in the mid-1980s. According to the theory, inherent in the internal logic of spillover is the systematic deepening of integration process. In practice, however, despite numerous initiatives in the 1970s aimed at the formation of economic and monetary union, this objective could materialise only as a result of the Single European Act in February 1986.

Furthermore, according to neofunctionalist theory, common integrational problems can be easily resolved by an expansion of regional economic ties provided there are legal and institutional processes and structures in place. In reality, however, the European Commission was not providing the kind of leadership that was vital to the idea of neofunctionalism. Moreover, in many instances supranational problems, for example transport policies in the 1960s and research-development initiatives in the 1970s, were adequately solved by the measures of individual governments.

Some theorists have even questioned the notion that progress of integration is caused by 'spillover'. In their opinion, the Western European experience has shown that deliberate political decisions rather than functional or technical pressures are the main reasons for the expansion of integration (Dougherty and Pfaltzgraff 1990, 459).

These criticisms were addressed by new followers of neofunctionalism. Keohanne and Hoffmann (1990) in their study of decision-making in the European Community agree that spillover does not account adequately for the major decisions, such as those of the Milan summit in 1985 and the SEA. They acknowledge that if

spillover and pressure from the European institutions had been sufficient to create such a substantive change, it would have been accomplished much earlier. In their opinion, this does not mean, however, that spillover is not an important concept in explaining task expansion in the Community, but that it needs to be seen in conjunction with other broader influences and pressures (Keohanne and Hoffmann 1990, 285-7).

In order to explain the unexpected institutional change of the 1986 Single European Act, and the strengthening of Community institutions which has occurred in the 1980s they make a number of arguments about the nature of integration. First, they stress the crucial role of governments in the negotiations and ratification of the SEA, arguing that the treaty was a consequence of a series of mutually beneficial intergovernmental bargains. Once a bargain has been made, there can be an expansion of integration processes as a result of linkages amongst sectors, as envisaged by the functionalist theory (Keohanne and Hoffmann 1990, 292-3).

Second, Keohanne and Hoffmann argue that rather than a direct consequence of the internal logic of spillover, the SEA must be seen as a form of adaptation to pressures from the global economy, especially the turmoil in the global currency markets in the 1970s and growing economic competition from Japan and the United States in the mid-1980s. The fear of losing their economic position created an incentive for the member countries to initiate common policies in order to attain sufficient economies of scale and the technological capability essential to compete successfully in world markets (Keohanne and Hoffmann 1990, 285).

Finally, they argue that changes in the European Community policy and policy-making structures resulted from a convergence of national government preferences rather than from internal or external pressures. The convergence of the interests of the member countries depended primarily on a definition of national interest based on a

perception that a greater involvement in integration is beneficial for their economic policy goals. Furthermore, the intergovernmental bargain was conditional on shared objectives with respect to proposed integration policies, and on subjective similarity - a belief on the part of the policy-makers that a similarity of objectives exists (Keohanne and Hoffmann 1990, 288).

In the case of the SEA its ratification resulted from a convergence of national interests around a new, neo-liberal, deregulatory pattern of economic policy-making of the 1980s. Furthermore, the incentives for institutional change were created as a result of the enlargement of the Community to 12 members which made it necessary to change the existing voting procedures to outvote recalcitrant governments. Under those conditions member countries began to see the institutionalisation of the deregulatory process and increases in the power of the Commission, as well as the introduction of qualified majority voting, as necessary for attaining measurable benefits from deregulation. In particular, these changes were seen as the most credible guarantee of ensuring that their partners would also open their markets. This resulted in the decisions by governments to focus on the removal of physical, technical and fiscal barriers rather than on the establishment of common means of intervention in the economies and to press, in their own interest, for institutional changes that would permit such a policy to be carried out. Without this new perception of the EC and corresponding policy shifts no consensus could have been reached on a program to dismantle barriers within Europe, and on the renunciation of the practice of unanimity under which decision-making was becoming virtually impossible. These underpinnings for the intergovernmental bargain of the SEA had little to do with spillover which explains neither mutual recognition nor deregulation or incentives for change as a result of enlargement (Keohanne and Hoffmann 1990, 288-9).

The preceding summary of major theories of regional integration suggests that each of them provides only a partial explanation of the forces behind the process of Western European integration. In essence, the three major theories differ on the question as to which of the major spheres of cooperation should be regarded as having been of critical importance for the expansion of integration. For federalists, institutional structures and processes have been of decisive importance. For functionalists an expansion of integration processes takes place as a result of cooperation between international agencies regulating and coordinating issues in the specific sectors of the sphere of exchanges. Finally, neofunctionalists emphasise the important role of shared values and perceptions among policy makers and interest groups, and the development of a sense of identity, as the prerequisites for the expansion of integration resulting from spillover. The experience of West European integration, characterised by the progress of integrative processes in all those spheres, defies, therefore, some of these assumptions of integration theories.

Moreover, terms such as federal, confederal, intergovernmental, and supranational have only limited value in describing and understanding the decision-making processes within the Community. Keohane and Hoffmann (1990, 280) have noted that all the intergovernmental bargains that were essential to the development of a single market were consistent in general terms with the confederal model. Confederalism alone does not, however, adequately explain the complexity of the interest-based bargaining that characterised the process of negotiations in the Community and the relative balance of power among national governments and the EU institutions. To define the nature of this decision-making process they suggest adopting Haas's (in Graubard ed. 1964, 64, 66) notion of supranationality, understood as a style of decision-making in which the participants seek to attain agreement by means of compromises for their mutual benefit. In other words, Keohane and Hoffmann (1990, 277) argue, that the EC institutions did not exercise

authority over national governments, and West European integration can be best described as an attempt at pooling sovereignty, not at transferring it from states to supranational institutions.

Despite these problems with defining the nature of West European integration, and the nature of its decision-making, these major theories of integration provide many useful concepts which help to explain the progress of integration. While CMEA experience defies most of these explanations, that in itself provides ground for comparisons that highlight the reasons for CMEA's failure which is the subject of this thesis. In this section, I will therefore identify the political, institutional and economic principles and mechanisms of CMEA cooperation and contrast them with the principles underlying the successful EU integration. Moreover in an attempt to provide a conceptual framework for the comparative analysis of the CMEA and the EU, I will use the neo-functionalist framework developed by Nye which examines the factors and process mechanisms which were of critical importance for the expansion of West European integration. I will argue that, in comparison with Western European integration, the CMEA was characterised by low levels of process mechanisms and weak integrative potential and that, despite the Soviet Union's pressures, these characteristics militated against CMEA integration.

In terms of underlying political principles West European integration has been based on an agreement among formally equal nation states which had strong institutional safeguards built into the Rome Treaty to protect the weaker members. This does not mean that some states, in particular Germany and France, have not exercised considerably more influence than others because of their size, economic potential, and political leverage. However, these obvious differences among the member states notwithstanding, the process of cooperation has been the outcome not of coercion but of the voluntary cooperation of sovereign countries perceiving their participation in integration as beneficial for the performance of their national

economies and willing to enter intergovernmental bargains, make compromises and closely coordinate their economic policies.

These principles stand in contrast to CMEA's experience which was characterised by an asymmetry between the Soviet Union's political and military power and economic resources and the position of the remaining member countries. Most importantly, the integration of CMEA countries was not a voluntary act of interested states, but the result of the Soviet Union's political domination over other members of the Soviet bloc. As a consequence, the Soviet Union exercised enormous political influence on CMEA decision-making, an influence which, as is argued throughout the thesis, was not guided by economic criteria alone. Thus, apart from having economic objectives, cooperation was undertaken as a means of using economic subordination to secure effective Soviet political control over the region. These wider political conditions meant that the framework for agreement and disagreement among CMEA members was different from that of Western integration, as East European countries tried to avoid participation in those CMEA undertakings which could have resulted in the Soviet Union's increasing its control over their economic policies or might have involved major costs for their economies.

These differences with regard to political principles also had major consequences for the institutional principles and the decision-making processes of both organisations. The European Union is governed by common policy-making institutions: the European Commission, the Council of Ministers, the European Parliament and Court of Justice. These institutions have authority to formulate and negotiate a framework of economic policies on behalf of its members, with the Council of Ministers being the major decision-making body. As McCormick (1996, 3) has noted, the EU is not yet a political federation or even a confederation, but its autonomous powers have grown steadily since the 1950s at the expense of states' sovereignty. As a result of this process, individual states no longer have supremacy

over all other authorities within their traditional territory and on certain issues can no longer veto proposals before the Council. Moreover, member countries agreed in 1986 to adopt decisions by a qualified majority not only on issues related to the internal market, but also on issues related to the common agricultural policy and external trade policy. Despite the considerable autonomy of the EU's policy-making institutions, national governments continue to play a dominant role in the decision-making process, as the EU institutions have full power to act for states only in external trade matters, with no more than a power of coordination over the rest of foreign policy.

The EU has also its own set of laws adopted by the Council of Ministers and interpreted by the Court of Justice. Member countries of the EC adopted the principle of supremacy of Community laws over the laws of member governments and the obligation of member states to implement binding national acts consistent with Community directives. By the standards of an international organisation EU members have been observing these rules to an unprecedented degree. At the same time, in comparison with the authority of a modern state, there are many instances of deliberate non-compliance or faulty compliance of Community laws as a result of problems with enforcement at lower levels of administration (Keohane and Hoffmann 1990, 278-9).

In the case of CMEA, the fear of subordination of national economic policies to Soviet priorities, in particular by means of supranational authority with directive powers to allocate resources, which would allow the Soviet Union to impose directly its own economic preferences on East European countries, led to procedures safeguarding formal sovereignty and voluntary participation of each country in any CMEA undertaking. These powers accorded to the national governments determined the formal powers of CMEA organs and decision-making procedures. As formal decision-making authority

rested entirely with the individual countries, CMEA institutions did not have powers to issue directives binding on national economic bodies but possessed only advisory and recommendatory powers. Thus CMEA was an organisation with consultative and coordinating functions but without effective formal powers to enforce its recommendations. These limited powers of CMEA bodies further strengthened the formal autonomy of the national authorities of CMEA members based on the State ownership and regulation of economic activities through the State plan.

Finally, there were fundamental differences between the economic principles on which CMEA and West European integration were based. In Western economies regulated by market instruments, international exchanges are conducted primarily by private enterprises guided by profit considerations. Hence West European integration policies are aimed at the liberalisation of regional exchanges through a gradual elimination of barriers to the movement of goods, factors of production and capital across national boundaries and the harmonisation of national monetary and fiscal policies.

By contrast, CMEA integration involved centrally planned economies, with the State and planned regulation of economic processes substituting for the market as the regulator of economic processes. As a consequence, CMEA integration relied on direct administrative methods for the management of economic relations between its members, primarily the bilateral coordination of plans for the basic sectors of the national economies and trade agreements. The main decision-making functions were fulfilled by the individual states and central national planning bodies which decided major economic issues on behalf of enterprises. Until Gorbachev's reforms, direct links between enterprises consisted in the implementation of decisions in accordance with the

terms of agreements previously decided at the central level during the coordination of plans.

Another tool for analysing the reasons for the failure of CMEA integration is Nye's neo-functionalist model which has been outlined earlier. By integrating this theoretical framework with an empirical analysis of CMEA integration it is possible to demonstrate that the process mechanisms and the 'integrative potential' of the region which had been of critical importance in relation to the development of EC integration were either insignificant or had little applicability in relation to CMEA.

First of all, by using the neo-functionalist criteria the discussion in the thesis demonstrates that process mechanisms which should have been of decisive importance for an increase in the levels of cooperation, such as spillover effect, rising transactions, in particular an increase in cooperation based on specialisation and production ties, coalition formation, elite socialisation, the emergence of regional interest groups, the development of a sense of collective identity and the involvement of external actors, in CMEA practice did not have a major impact on the progress of integration.

Furthermore, it will be shown that process mechanisms related to regional group formation, elite socialisation and the development of a sense of collective identity had little applicability to CMEA because of conflicting interests among national political leaders, central planners and interest groups. On the contrary, CMEA cooperation was characterised by the continued existence of divergent national interests articulated by different countries in the region which stood in the way of reaching mutually beneficial compromises necessary for the expansion of integration.

An analysis of CMEA operation shows also that the structural and perceptual conditions were also not conducive to integration. With regard to structural conditions, the 'integrative potential' of Soviet bloc countries was weak because of the differences in the levels of economic development, and in the natural resource endowments among individual countries and the similarity of national industrial structures. In addition, the capacity of member states to adapt and respond to signals and pressures originating in the integrative process was low, both because of the unwillingness of members to act in concert with each other, and because of the limited actual power of political and economic decision-makers to control the economy due to the lack of workable mechanisms to implement integration policies effectively. Other structural conditions had little relevance to CMEA. For instance, interest or pressure groups which have played a major part in strengthening integrative tendencies in Western Europe were not an important factor in CMEA political and economic decision-making. One of the reasons was that political and economic elites, including managers, were not interested in exports and powerful interests groups had a vested interest in the maintenance of the status quo rather than in the introduction of new technologies or raising the standards of production. Furthermore, there was little value complementarity among CMEA policy-makers which was manifested in strong differences of opinion over the pace and direction of economic reforms, conflicts of commercial interests and fears among some members for their economic sovereignty. Finally, perceptual conditions also did not encourage East European decision-makers to further integration as CMEA integration was perceived by most East European partners as a primarily political rather than an economic integrative device operating largely for the benefit of the Soviet Union.

By arguing the importance of political factors in determining the CMEA mechanisms and the choices made by participants, this thesis aims to make a small contribution towards the task of filling a significant gap in the literature on CMEA integration.

The subject of economic relations between Soviet bloc countries in general and the operation of CMEA in particular have been examined in numerous studies, both in Western and Soviet bloc literature. These studies were, however, primarily concerned with economic mechanisms involved in economic integration within CMEA, not with strategic and political factors which produced dysfunctional institutional arrangements leading to the actions of individual countries which undermined cooperative arrangements. For example, major Western studies on CMEA integration and its specific forms by Kaser (1965), van Brabant (1989), Holzman (1974, 1987) and Zwass (1989) were concerned with the economic aspects of the integration mechanisms such as trade, payments and economic cooperation arrangements. These studies focused on the flaws of CMEA economic mechanisms and their ineffectiveness in the achievement of the CMEA's objectives as the main reason for the failure of integration efforts. This does not mean that these studies analysed the operation of CMEA in a political vacuum. However they did not undertake a comprehensive examination of the connection between the political objectives of the Soviet Union in the region and the dynamics of integration.

This approach, which ignores the fact that the Soviet integration policy was driven by political considerations, does not offer a wholly adequate explanation for the failure of CMEA. While an analysis of basic economic integration mechanisms is necessary to explain the technical barriers to cooperation, it is not sufficient to explain the persistence of dysfunctional CMEA mechanisms, and proved to have little predictive value. Furthermore, approaches which ignored the predominant importance of political factors implied that all CMEA members had equal decision-

making powers. This approach led to misinterpretation of the motives of individual members and incorrect assessments of their actual power to determine the outcomes.

Towards the completion of my thesis a study written by Stone (1996) was published whose objective was also to analyse Soviet integration policies from the perspective of political science and economics. His book provides a detailed account of the formulation of CMEA strategies and the negotiation process as well as the implementation of programs, based on confidential reports from Soviet and East European archives and interviews with highly-placed Soviet bloc trade officials. In what follows I have used the findings from Stone's research to support arguments which I had earlier formulated on the basis of official publications and reports.

Stone's study has involved conclusions complementary to my own, and has confirmed many of the points I have made. However, Stone's principal explanations of the failure of CMEA policies have differed from mine. His study is based on an assertion that since the late 1950s, Eastern Europe was subsidised by the Soviet Union. His evidence for this claim is that East European states ran a trade surplus with the Soviet Union in the overpriced categories of machinery and equipment and ran a deficit in the subsidized categories of energy and raw materials. He also claims that the Soviet subsidy spiralled out of control, a claim that is not supported by evidence.

Stone has argued that the size of the Soviet subsidy to each country was a primary issue in trade negotiations, and determined the implementation of strategies by East European members. Thus, the CMEA strategies could not be implemented because the East Europeans opposed the Soviet Union's attempts to restrict subsidies by improving its terms of trade and pursued policies to optimise the structure of their exports and to avoid costly investments. He also blames for the lack of progress in

the implementation of CMEA programs the Soviet bureaucracy which did not have incentives to represent Soviet national interests.

Stone has also argued that the Soviet Union did not exploit East European economic dependence and did not link subsidy and pressure on individual countries because institutional constraints prevented Soviet negotiators from making effective linkages between trade negotiations and political issues. On this basis alone, he disagrees with the proposition, well-established in studies of Soviet-East European relations, that Soviet trade and economic policy was linked to security objectives and political relations.

I disagree, first of all, with Stone's conclusion regarding the role of Soviet trade policy in advancing Soviet political interests. I argue that the Soviet Union used economic links instrumentally for political ends by maintaining the system of exchanges based on an artificial pricing system, and through the imposition of export specialization directions and joint investments which encouraged dependence of East European members on the Soviet economy and prevented East European countries from developing economic ties outside the CMEA.

Furthermore, I disagree with Stone's claim that the failure of CMEA policies was the result of the East European countries' desire to maximise subsidies. Even if the subsidies were as substantial as claimed by some writers, (albeit I cite evidence to the contrary), there is no evidence that East European countries were motivated by the size of the subsidies in making decisions about their exports or participation in specialisation agreements. The main preoccupation of East European countries was to secure Soviet market for their manufactures, and to maintain and, indeed, increase the levels of raw material imports from the USSR. This task began to be increasingly difficult from the mid-1970s due to factors such as Soviet cuts of deliveries and specific demands regarding the composition and quality of East European imports.

Given these constraints on East European exchanges with the Soviet Union, the desire to ensure supplies of the raw materials vital for the stability of their economies can not be equated with an attempt to maximise subsidies.

Finally, I disagree with Stone's limitation of the explanation of the failure of Soviet bloc integration efforts to the issue of subsidy, and commercial interests. While I adopt a similar approach to the explanation of the failure of CMEA integrationist policies by looking at the motives of the basic units involved in integration, in explaining their actions I consider it necessary to look at the internal logic of the underlying mechanisms of cooperation involving the basic economic instruments of CMEA economies, the constraints on CMEA mechanisms and the conditions of cooperation. Thus I argue that while East European resistance to Soviet initiatives contributed to the failure of CMEA, the main reason was the lack of effective instruments for international economic cooperation among Soviet bloc economies, and structural barriers to economic cooperation stemming from domestic economic difficulties and the technological gap dividing CMEA market from world economies. Furthermore, I argue that as the institutional arrangements of the economic system of CMEA members were imposed by the Soviet Union, and CMEA objectives and mechanisms could not conflict with Soviet political objectives in the region, then, ultimately, the primary factor responsible for the failure of integration was the dominance of political criteria in Soviet decision-making on CMEA which hampered the creation of the conditions necessary for successful cooperation.

CHAPTER ONE

1949-1953: PRESSURE FOR COOPERATION WITHIN THE COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE UNDER STALIN.

This chapter discusses pressure on cooperation within the Council for Mutual Economic Assistance (CMEA) during the Stalinist period until 1953. It begins with a discussion of political relations between the Soviet Union and Eastern European countries. The discussion includes the examination of the objectives of Soviet foreign policy in Eastern Europe and methods applied by Stalin to establish and maintain Soviet hegemony over the region. The chapter also examines the ideological doctrines justifying Soviet domination of the bloc, and enshrining principles governing intra-bloc relations. Furthermore, the chapter looks at a relationship between Stalin's strategy in Eastern Europe and the dynamics of the international situation during that period, in particular, Soviet perceptions of and responses to post-war Western policies and integration measures. This analysis highlights interrelationships between the role of CMEA and Soviet foreign and domestic priorities.

The discussion of CMEA operation includes postulated and actual CMEA objectives, policies and mechanisms of cooperation, and the actual structure and dynamics of economic links. This part of the chapter focuses on the political aspects of CMEA operation such as the Soviet approach to economic cooperation and the response of East European countries and the relative importance of economic considerations in the process of formulation and implementation of intra-bloc economic policies. It also demonstrates how the conflicts between the formal and informal methods of managing bloc relations affected the functioning of CMEA. I will argue that the major constraints on the formulation and implementation of CMEA cooperation strategy were political in nature: the CMEA operation was determined above all by Soviet political objectives in Eastern Europe and by mechanisms established for the subordination of bloc countries.

For the purpose of this dissertation, the Stalinist period is regarded as a distinct stage in Soviet-East European relations, which should be examined separately, for the following reasons. Firstly, Stalinist policies in Eastern Europe represented in their later phase an extreme case of Soviet domination of the region in ideological, political and economic spheres and thus will provide a useful comparative background for a study of the relationship between subsequent changes in the pattern of Soviet-East European relations and intra-bloc economic policies. Secondly, the policies implemented during this period laid the foundations of the economic institutions and industrial structures which determined, to a large extent, the process of integration within the CMEA for the next forty years, and therefore the discussion of their origins will place in proper perspective an analysis of the functioning of CMEA in the following chapters.

1945-1947: Origins of Soviet domination. Early pattern of Soviet policy in Eastern Europe.

The foundations for the political division of Europe and the subordination of Eastern Europe to Soviet domination were laid during the Second World War as a result of military operations and the political calculations of the allied powers. The region was deemed to be vital to Soviet security, and the Soviet Union was determined to use its hard-won victories in the war to protect itself from another invasion from the West by the creation of a buffer zone to the west of the Soviet border. Stalin apparently regarded it as his inalienable right to decide the political order of those territories which were occupied by the Red Army (Djilas 1962, 114), and his claims to the Soviet sphere of influence were apparently acknowledged by the Western powers. Apart from a conference in Tehran in November 1943, and an agreement in 1944 on the occupation zones in Germany, this process had primarily an informal character and entailed tacit acceptance by the Western allies of the policy of accomplished facts in the sphere of Soviet military operation (Kersten 1995, 22). Throughout 1943-44 Roosevelt had also indicated that he understood the need for a Polish government that would be friendly to the Soviet Union.

In October 1944 Churchill promised to recognize Soviet domination in Rumania and Bulgaria in return for British primacy in Greece, and thus tacitly recognised the division of Europe into spheres of influence (La Feber 1980, 13-6).

The Yalta agreements in February 1945 were a natural consequence of this process and therefore its terms seemed to indicate to Stalin that his allies had at least acquiesced to his domination over Eastern Europe. On the one hand, the letter and spirit of the agreements expressed Western principles on post-war order and provided for the formation of interim governments which would be democratic and representative of each country's various political parties, and would be pledged to the holding of 'free and unfettered elections' (Davis 1974, 183). On the other hand, however, the terms of agreements reflecting the existing balance of power were so broad that in practice they gave Stalin unlimited freedom of action in Eastern Europe. The final diplomatic act which placed the region under Soviet influence was the division of Europe along the Laba River at the Potsdam conference in July 1945.

The assessment of the responsibility for the post-Yalta division of Europe and the inevitability of Soviet domination of Eastern Europe is a separate issue, which obviously cannot be dealt with in this dissertation.¹ For our purposes the important point is that in the course of the first post-war years Stalin's policy was consistent in its ruthless pursuit of securing Soviet control over strategic areas by both diplomatic and military means, and that by the beginning of 1948 East European countries were under total communist domination.

The first step in establishing control over Eastern Europe was the setting up of communist-controlled coalition governments, based on national fronts. Regardless of the actual representation of political forces, communist parties were placed in charge of key

¹ In Western literature, two distinct schools of opinion have emerged concerning the responsibility for the division of Europe and the Cold War. For conservative scholars the more 'politically correct' line has been to blame Stalin for breaking the 'contract'. On the other hand, liberals, not to mention those on the left, have argued that the responsibility rests with the imperialist US policy.

ministries: the military and security apparatus. In Poland, the Polish Committee of National Liberation (PKWN), controlled by communists, was formed by Stalin as early as 22 July 1944 on the Polish territory newly liberated by the Red Army. In June 1945, at a conference held in Moscow, it was replaced by the government of national unity which was nominally a coalition of five parties and included more representatives of non-communist parties, but de facto was dominated by the Polish (Communist) Workers Party (PPR).¹

The Soviet Union's direct interference in internal politics of East European countries was also evident in the support lent to local communist parties in their struggle with political opponents (Dmitrow 1989, 13).² In Poland, for instance, Soviet military backing and the involvement of NKVD agents, who occupied key positions in the Polish intelligence, in the mechanism of repression were critical factors in the gradual taking over of political power by local communists. Furthermore, in the economic sphere, East European governments, under Soviet pressure, initiated socialist transformations of national economies, such as land reform and collectivisation, the nationalisation of major industries, banks, domestic and foreign trade and monetary reforms, which secured an increased role for the state in the management of the economy.

However, despite Soviet military presence and interference in internal politics, East European 'coalition' governments were still allowed in the course of the next two years to pursue domestic economic policies which diverged from Soviet experience and reflected differences in local social and economic needs and constraints. As a

¹The government was recognised a few days later by the United Kingdom and the United States upon the condition that this government would be an interim one until free elections could be held. In the opinion of a distinguished Polish historian, this represented the next step in the 'betrayal' of Poland by Western powers which had begun before the Yalta agreement (Kersten 1995, 22).

²At the close of war in the majority of East European countries, communist parties had a narrow popular base, insufficient for them to secure power by democratic means. Only in the Czechoslovakian elections in 1946 did communists gain a relatively high share of votes, 38 per cent (Albert 1991, 569).

consequence, the nature of systemic transformations varied considerably from country to country and their pace was more cautious than the original Soviet pattern.¹

These differences in approach to the post-war reconstruction of economies and the formation of the basis for industrial expansion were also reflected in differing annual rates of capital investment. Likewise, the introduction of planning in economic management, including the drawing up of the first comprehensive developmental plans in 1947, took place independently, with the end years of the plans different for each country. The plans focused on reconstruction and full utilization of resources, but there were considerable variations in the relative importance given to particular sectors of the economy. To a large degree the plans had the character of general directives and were worked out in detail only for such important economic sectors as large-scale industry and transport.

The degree to which the policies diverged from the Soviet model varied from country to country. A Polish communist leader, Wladyslaw Gomulka, who was against speedy collectivisation and imitation of Soviet methods without regard for peculiarities of the country's social and economic structures had insisted on a course which differed in so many respects from Soviet practices, that it was branded as the distinct Polish road to socialism (Dziewanowski 1976, 211-2).

The pursuit of a relatively independent political line did not mean that these local leaders were not committed to the ultimate goal of a purely communist government or were disloyal to Moscow. It was rather the case that they accepted the participation of communist parties in national fronts and the gradual increase of influence of their parties as a temporary tactical necessity in the transitional period.²

¹For differences in economic policies in individual countries during the phase of reconstruction see Economic Commission for Europe 1953, 21-6. In Poland the pace of collectivisation was much slower than in other bloc countries and until the middle of 1948 rumours of impending collectivisations were branded as 'reactionary gossip' or an 'oversimplification of the tempo of historical process' (Dziewanowski 1976, 198).

² According to a Polish historian, both Stalin and local communist party leaders as early as 1945-46 excluded the possibility of operation of independent political forces opposed to the political and

Moreover, as will be discussed later, a political approach of 'nationalistic communists', which has been also defined by Brzezinski (1979, 52-8) as 'domesticism', was consistent with Soviet policy prescriptions in the 'new democracy' doctrine espoused until the end of 1947 which allowed East European countries a degree of political and economic autonomy and institutional diversity.

A similar strategy, combining control and relative autonomy, characterised Soviet policy towards inter-state relations within its sphere of influence. On the one hand, the Soviet Union began to develop a network of bilateral relations with East European countries. On the other, Moscow sanctioned initiatives advanced by the individual communist leaders to form regional political federations or multilateral commissions for economic cooperation embracing several socialist countries. For example Stalin endorsed the proposal of Tito and Dimitrov, the Yugoslav and Bulgarian communist leaders to form the Balkan Federation scheme. He also approved of the July 1947 agreement of the Czechoslovak and Polish governments to establish a permanent economic council for the economic integration of the two national economies, which Hungary was to join later (Brzezinski 1979, 55).

The dual focus also characterised the Soviet approach to foreign economic relations in the region. The degree of independence was indicated by the active role assigned by East European states to foreign trade in their strategies of economic reconstruction and development, and in the geographical directions of their foreign trade exchanges. During 1945-48 the countries of this region regarded foreign trade as an important instrument of economic growth, with the overwhelming share of their imports, in particular of machinery, equipment and raw materials coming from the West (Economic Commission for Europe 1948, 144).

economic transformations. Wladyslaw Gomulka, expressed his commitment to the idea of purely communist government as early as 1945. He stated that in Poland the only kind of opposition which might be permitted is the one which 'does not seek to overthrow existing government' (Duraczynski 1989, 14).

For example, in the first half of 1947, Czechoslovak imports from Western Europe, the United States and other overseas countries represented 87 per cent of her total imports, while imports from Eastern Europe were 10 per cent and from the Soviet Union 3 per cent. Her exports to these areas were 80 per cent, 15 per cent and 5 per cent respectively. In the first half of 1948 Czechoslovakia imported from the West 68 per cent of her iron ore, 95 per cent of her copper, 98 per cent of her aluminum, 85 per cent of her wool and 93 per cent of essential materials for chemical industries.

In the case of Hungary 63 per cent of imports and 57 per cent of exports came from outside Eastern Europe and the Soviet Union (Economic Commission for Europe 1948, 144). In Poland's foreign trade the share of the Soviet Union and other East European countries amounted in 1948 to 27 per cent. Exchanges between such countries as Czechoslovakia, Hungary, and Poland and the West continued to grow in 1947-48 at the cost of transactions within the bloc. By 1948, only Bulgaria and Rumania depended on the communist bloc for more than 50 per cent of their foreign trade (Skilling 1966, 213).

These strong trade ties with the West were partly a result of Western assistance and its ability to provide capital goods essential for the reconstruction of economies and meeting their industrialisation objectives, and partly a continuation of a traditional system of interdependencies and exchanges between Western and Eastern Europe. In the inter-war period the main trading partners for East European countries were West European countries, principally Germany, to which they exported chiefly foodstuffs and raw materials, and from which they obtained manufactured goods. Their trade with other East European countries, and particularly the Soviet Union, constituted a marginal percentage of their total foreign exchanges (Economic Commission for Europe 1949, 139).¹ In 1938 mutual trade of East European countries accounted for only 10 per cent of their total exchanges, with trade with the Soviet Union accounting for only 1-2 per cent. The

¹Imports and exports with the USSR and other People's Democracies amounted in 1937 to 12 per cent of total in the case of Bulgaria, 13 for Hungary, 7 for Poland, 18 for Rumania and 11 for Czechoslovakia (Brzezinski 1979, 127).

reason for such a small share of mutual trade in their total foreign exchanges was the complementarity of economic structures and the resultant similarity of export potential and import needs. The only country which developed trade relations with the other countries of the region on the basis of exchanges of raw materials and agricultural products for industrial goods was Czechoslovakia.

This continuing importance of economic ties with Western countries in satisfying the requirements of East European economies explained also the initiative of the Polish and Czechoslovak governments to accept assistance under the Marshall Plan, a massive US aid program for Europe announced in March 1947, which will be discussed later.

This policy of allowing East European countries relative autonomy in the conduct of their foreign economic relations was paralleled by the policy of subordination of their economies to Soviet interests. This policy had two distinct directions and in part had a distinctly exploitative character. One direction, which assumed a form of structural subordination, was to acquire a dominant position in the East European economies. Another direction was aimed primarily at meeting the short-term needs of the Soviet domestic economy.

Key elements of this strategy included bilateral trade and payment treaties and agreements on economic co-operation which the Soviet Union began to conclude as early as 1945 (Kaser 1965, 43). Their long-term objective seemed to have been to tie East European economies to the Soviet one by creating a network of commercial and financial ties at the expense of links with other countries, while in the short-term they met immediate needs of the Soviet economy devastated by war. Some of these initial trade agreements were manifestly exploitative in nature as they were concluded on terms clearly advantageous to the Soviet Union, at prices much below current world market prices.¹

¹ The best documented example of such transactions was the export of Polish coal in the period 1945-53 on the basis of the agreement of 16 August 1945. In November 1956 the Soviet Union

Another element of Soviet economic policy towards Eastern Europe serving the immediate requirements of the Soviet economy were measures such as the acquisition of former Axis countries' assets, dismantling of factories, reparation payments imposed on ex-enemy states and the operation of joint stock companies. While the execution of war reparation claims was a legitimate policy, joint ventures were exploitative in character. The joint companies were run by Soviet advisers and administrators and served as instruments of Soviet control over key economic sectors: the development and use of resources, manufacturing and transport industries and the banking sector. Capital and resources obtained through mixed companies assisted Soviet post-war economic recovery and the realization of the exceptionally ambitious objectives of the 1946-1950 five-year-plan. They exported manufactured goods directly to the Soviet Union, and Soviet profits from their activities were tax free. In Rumania, for example, during 1944-47 the Soviet Union appropriated through the operation of joint ventures 57 per cent of that country's petroleum output (Sulzberger 1949 a, 14). Marer (in Terry ed. 1984, 156) estimated the value of the uncompensated flow of resources from Eastern Europe to the Soviet Union during the first post-war decade by the Soviet Union to be roughly US \$ 14 billion.

The new democracy doctrine and its functions

Until 1947 East European states were thus not fully independent, yet they were not fully subordinated either. They were characterised by a considerable institutional diversity of political and economic systems. The Soviet Union provided justification for this relative autonomy of East European countries in conducting their domestic policies in doctrines which defined the character of the socio-political order of East European states in Marxist-Leninist terms. The elaboration of a Marxist-Leninist theoretical basis for the

was compelled to annul Polish debts as compensation for those deliveries (The Polish-Soviet declaration of 18 November 1956, *Trybuna Ludu* 19 November 1956, quoted in Zinner ed., 1957, 311).

justification of its policies towards Eastern Europe was another way of declaring that the Soviet Union regarded the region as a part of its sphere of influence.

The initial authoritative interpretation concerning the class nature of the socio-political order and the objectives of the newly established states of Eastern Europe was expounded in the years 1946-47 and rationalised Soviet policy in the period when East European communists shared power in coalition governments. The doctrine referred to these states as 'new democracies' or 'democracies of a new type' stressing that their features represented 'a new phenomenon of social life, created by the unique conditions of the contemporary transitory stage of world development' (Leontiev 1947, 67)¹.

While emphasising the apparent originality of the socio-political and economic system of the 'new democracies', the doctrine located these countries in the historical process, as viewed by Marxists, as representing 'a transitory political form on the road from capitalism to socialism' (Varga 1947 in Daniels 142). The identifying feature of their political organisation which allowed a classification in these terms was the character of the state which was an instrument of political power of the working people (Leontiev 1947, 67). The doctrine emphasised that despite outward characteristics of bourgeois parliamentary democracy, the parliamentary form of the 'new democracies' had acquired a new meaning, different from bourgeois parliamentarism (Varga 1947 in Daniels 144).

This definition of the political objective and the organisation of a society was thus in some respects consistent with the Marxist-Leninist concept of the dictatorship of the proletariat which identified it as the political organisation in transition from capitalism to communism formed following the socialist revolution and the overthrow of the bourgeoisie state, where the power is exercised by the working class in the alliance with the peasantry (Brzezinski 1979, 23-4).

¹The chief exponents of the doctrine were I.P.Trainin, E.S.Varga and A.Leontiev, all of them distinguished Soviet scholars in their respective fields. For a comprehensive discussion of their views, and those of their critics see: H.Gordon Skilling, 1951-52, 'People's Democracy' in Soviet Theory.' I and II, *Soviet Studies* 1:16-33; 2:131-149.

However, despite the pronouncement that the political objective of these countries was a transition to socialism, the doctrine did not interpret radical social and economic transformations taking place in East European countries, as socialist or proletarian revolutions. Nor was it claimed that these measures would lead to socialist revolution. Similarly, despite defining the state as the instrument for the political domination of the working class, the 'new democracy' doctrine did not claim that the 'new democracies' established the dictatorship of the proletariat as had the Soviet Union.

In accordance with these characteristics of the 'new democracy' not as a form of the dictatorship of the proletariat, but as a new, unique form of social order, the doctrine did not prescribe for the newly formed East European states any obligatory organisational forms. It accepted the continued existence of parties other than the communist parties and their sharing of political power in coalition governments, and considered as equally legitimate public, private and cooperative forms of the ownership of means of production (Leontiev 1947, 76). In the sphere of international economic relations the 'new democracies' were encouraged to cooperate within the bloc, but they were also not forbidden from maintaining trade relations with the non-bloc countries as long as the latter's aim was not 'the economic enslavement of the small nations' (Leontiev 1947, 79).

One purpose of this definition was to legitimize the nature of relationship between the Soviet Union and Eastern European states. By stating that the 'new democracies' were on the way to socialism, the doctrine on the one hand justified Soviet involvement in Eastern European affairs and Soviet guidance in policy formulation. At the same time, however, by stating that the dictatorship of the proletariat was still considered inapplicable to the 'new democracies', the Soviet Union apparently declared that it was committed to the acceptance of diversity and flexibility and did not intend to impose a direct Soviet rule over the region. Thus, while the doctrine of 'new democracy' did not address itself directly to the question of the applicability of Soviet experience in the

countries of Eastern Europe, these assumptions, by implication, meant the Soviet strategy of building a socialist state was not an obligatory but an elective pattern for the organization of the political and economic structures of East European countries and that they could pursue their own national and distinct roads towards socialism different from the Soviet model.

These tenets of the 'new democracy' doctrine also had unintended implications. For some Soviet and East European theorists such as Eugene Varga, a prominent Hungarian economist living in the Soviet Union, the unique character of the political organisation of East European states was evidence that the political domination of the working people and, hence, the transition to socialism, could be realised in forms other than the dictatorship of the proletariat led by a communist party. This interpretation raised also the possibility that the 'new democracies' represented an original social order neither capitalist, nor socialist, but a synthesis of socialist and capitalist elements, 'a third road' between capitalism and socialism, understood as Soviet-type communism. While it was not certainly Varga's intention, such doctrinal views posed a challenge to the Soviet Union's authority.

In terms of actual policies of Eastern European countries, given the existence in some communist parties of opposing factions divided over the scope and pace of the political and socio-economic transformations appropriate in given circumstances, the espousal of a doctrine which considered new democracies as representing a distinctive and unique pattern of transition from capitalism to socialism¹ provided ideological justification for the arguments of those East European leaders who, like the Polish communist leader Gomulka, insisted that the new regime would follow the 'specific Polish way to socialism'.

¹Varga (1946, 14) cited in Skilling 1951, 21. *Izmenienia v Ekonomike Kapitalisma v Itoge Vtoroi Mirovoi Voyny* (Changes in the Economics of Capitalism as a Result of the Second World War) Moscow.

From the perspective of relations with the West, Soviet endorsement of a degree of political pluralism was well positioned to allay some Western fears of Soviet intentions. At that time relations between former War allies were already tense, with a gradual deterioration beginning in the late spring of 1945 over the political future of Poland, German reparations and the US loan promised to the Soviet Union.¹ Tensions had increased further in 1946 over delays in the promised withdrawal of Soviet troops from Iran, conflict with Turkey and Soviet control of Poland. They came to the surface during the early part of 1946 when Stalin in his February election speech, and Churchill in his 'iron curtain speech' in March had characterised the international situation in terms of the fundamental contradictions between the capitalist and communist systems thus declaring the beginning of the cold war.² This view of the world splitting into two fundamentally hostile camps was advanced again in November 1946 by Stalin's chief ideologue Andrei Zhdanov who expounded the doctrine of a division of the world into two diametrically opposed camps, with the Soviet Union leading democratic countries (Brzezinski 1979, 45). Tensions further escalated when the United States officially joined the Cold War with the announcement in March 1947 of the Truman doctrine which espoused as a guiding principle of US foreign policy the 'containment' of communist influence and outlined the ideological and economic rationale for economic assistance to Europe through the Marshall Plan - a multibillion-dollar aid program for national economic reconstruction and development (La Feber 1980, 50-9).

However, despite hostilities, as long as the Soviet Union hoped that the US would grant credit which would help to implement the five-year plan and rebuild the Soviet economy, it was prepared to make some sacrifices in its policy towards Eastern Europe

¹The Soviet Union lodged its first formal request for a formal loan on 3 January 1945 after negotiations which had begun in October 1943. The question of credit was tied into overall diplomatic relations with the Soviet Union and was used by American diplomacy to obtain political advantages. the deliberate stalling in 1945-46 of the negotiations on the US \$ 1 billion loan. It was hoped that the promise of credit would force the Soviets to accept the American interpretation of the Yalta accords and cease Soviet interference in East European internal affairs.

² In an interview with *Pravda* on 13 March 1946 Stalin commented that Britain's position represented 'a call for war on the USSR' (cited in Lafeber 1980, 139).

in terms of the progress towards consolidation of its domination over the region. Continuing cooperation depended on cordial relations and the avoidance of any major diplomatic crisis. In pursuit of these goals Stalin allowed a degree of political pluralism in Eastern Europe.

1947-1953: The political framework for CMEA intra-bloc economic cooperation.

This stage, described by Miller (1991, 29) as semi-fictitious independence, during which the East European communist parties enjoyed relative autonomy in formulating domestic and international policies lasted until mid-1947. From the summer of 1947 there was, however, a definite shift in Soviet policy direction towards the consolidation of Soviet power over the bloc. In the economic sphere, the objectives shifted towards greater integration of East European economies with the Soviet Union's and subordinating them to meeting Soviet economic goals. The shift in Soviet policy in Eastern Europe also found expression in the new methods of managing the bloc. In political relations there was tightening of control over internal and external policies in East European countries and a transition from the phase of diversity to enforced unity. In the sphere of intra-bloc economic relations there was pressure on the establishment of permanent ties linking East European economies with the Soviet economy which included the setting up of CMEA in January 1949.

The first sign of Stalin's new approach was the conclusion in July 1947 of bilateral agreements on economic assistance and cooperation between the USSR and Bulgaria, Czechoslovakia and Poland which were followed later by similar agreements with Hungary and Rumania (La Feber 1980, 71). The conclusion of trade agreements, the so called 'Molotov Plan', created prerequisites for the reorientation of the foreign trade directions of People's Democracies in favour of relations within the bloc and ensuring the Soviet Union's dominating position in the East European trade relations.

This move was paralleled in the political sphere by the announcement of a decision to establish the Communist Information Bureau (Cominform), ostensibly to intensify contacts and organize exchange of experience among the 'fraternal' parties and coordinate their activities on the basis of mutual agreement in order to represent and express 'the tasks and interests common to the parties of various countries' (*For a Lasting Peace, for a People's Democracy!* 1947:1, 1).¹

These steps directly followed the rejection by the Soviet Union of Marshall Plan assistance² on the grounds that its conditions - which required giving access to information about the state of the economies of the Soviet Union and East European countries - represented an attempt by the West to interfere in the nationalization policies being implemented by the countries of the communist bloc and threatened the sovereignty of these nations (Deutscher 1972, 567). Following the Soviet rejection, the Soviet Union in July 1947 instructed the Polish and Czechoslovak governments to refuse participation in the Marshall Plan.

In the next months Cominform was used by the Soviet Union to put pressure on East European communist parties to follow a unified ideological line set by the Soviet Union on questions of internal development and foreign policy. For example, during sessions in the fall of 1947 and the summer of 1948 East European communist leaders were ordered to eliminate independent socialist and peasant parties in their countries. Its founding signalled thus tightening of discipline over methods used by communist parties and a return to a close directing of the communist movement through an organisation uniting communist parties with the centre in Moscow. In this role of an authoritative centre for elaborating the general line of the Soviet bloc the Cominform represented thus

¹ The text of the first resolution passed by the Cominform on 10 November 1947 - 'Resolution on the Interchange of Experience and Coordination of Activities of the Parties Represented at the Conference'.

² The establishment of Cominform was announced four days after the rejection by the Soviet Union of the terms of the Marshall Plan.

the resurrection of the idea of Comintern abolished in 1943 in order to appease Western powers and persuade them of a non-ideological orientation of Soviet foreign policy.

The assertion by the Soviet Union of ideological and political leadership in the bloc was also evident in setting of new rules on direct relations between individual East European countries. In an article published in *Pravda* on 29 January 1948 and at a conference in Moscow with Bulgarian and Yugoslav delegations in early February the same year East European communists were advised of the undesirability of direct consultations and agreements, federations and custom unions. These pronouncements made it clear that relationships between the satellites' parties were to be limited to matters approved by Stalin and had to be conducted through Moscow.¹

The fate of a country which would insist on its political and economic autonomy and was not prepared to obey the new rules and recognise the Soviet leadership in the bloc was exemplified by the treatment of Yugoslavia. Until late 1947 Yugoslavia was the most loyal ally of the Soviet Union and a strong supporter of moves aimed at the formation of the Cominform. The relations between both countries deteriorated, however, when the Yugoslav communist party expressed resentment at Soviet interference in its domestic affairs, such as infiltration through diplomatic representatives, and military as well as civilian advisers (Singleton 1985, 220-1). The criticism was also levelled at the operation of Soviet-Yugoslav joint companies and complaints were made about the prices the Soviet Union paid for the import of raw materials from Yugoslavia, which were ten times lower than world market prices (Sulzberger 1949b, 4). Furthermore, at the time of the espousal of the 'new democracy' doctrine, the Yugoslavs came into conflict with the Soviet Union by claiming that the class nature of the Yugoslav state was in essence the same as the Soviet state's and thus did not differ from the dictatorship of the proletariat which was established in the Soviet Union in 1917 (Brzezinski 1979, 37). These actions and pronouncements implied a

¹ see Djilas (1962, 171-81) for his account of the meeting.

claim to an equal status with the Soviet state and thus presented a challenge to the Soviet Union's authority. Tito's refusal to accept Soviet right to limit the autonomy of East European communist leaders ended in the expulsion of Yugoslavia from the Cominform on 28 June 1948 following the campaign of discriminatory measures and condemnation of Tito's policies.¹

As a justification for a new phase in Soviet policies towards Eastern Europe the Soviet Union invoked the alleged external threat from the imperialist camp, in particular the implications for the security of the Soviet Union and the socialist camp of the Marshall Plan, which required a unified response from 'the fraternal communist parties'. Following Soviet refusal of the Marshall Plan, a number of high-ranking Soviet party officials and the Politburo issued pronouncements describing the Marshall Plan as an attempt by the US at economic and political domination of Europe and as a means of restoring the German and Japanese economies (La Feber 1980, 61).² Molotov warned that its implementation laid the basis for Western bloc hostility to the Soviet Union and its allies and thus was bound to lead to the division of Europe into two groups of states (La Feber 1980, 70).

This dichotomous approach towards world affairs and the call for vigilance continued on the occasion of the establishment of the Cominform in September 1947. Andrei Zhdanov in his opening address, described the international situation in terms of division into two hostile camps: an anti-communist bloc led by the US and the anti-imperialist and democratic camp under the Soviet Union's leadership (Zhdanov 1947, 2-4). He warned of the expansionist ambitions of the USA implicit in its broad program of 'military, economic and political measures designed to establish US political and economic domination in all countries marked out for American expansion' (Zhdanov 1947, 2). He

¹Cominform resolutions were full of vicious attacks on the Yugoslav party. For example 'Resolution of the Information Bureau on 29 November 1949', accused the communist party of Yugoslavia of being in the power of murderers and spies and declared that the Tito clique transformed Belgrade into an American centre for espionage and anti-communist propaganda (*For a Lasting Peace, for a People's Democracy!* 1949:28, 2).

² Andrei Vyshinsky, 18 September 1947 cited in Lafeber 1980, 161-2.

contended that the Marshall Plan represented a scheme to create a bloc of states under US domination. In relation to Eastern European countries, he accused the US of using the Plan to undermine their independence by means of credits and make them renounce their close political and economic ties with the Soviet Union (Zhdanov 1947, 3).

At the same time, since May 1947 Soviet scholars, such as Andrei Vosnesensky, a chairman of State Planning Commission, had highlighted the intensifying contradictions within the capitalist system and pointed to the inevitability of a further 'general crisis of world capitalism' arguing that world market would be weakened by the withdrawal of socialist countries as a result of the development of the world socialist system (Raina 1983, 64). This analysis led to the conclusion that the alleged favourable swing in the global balance due to 'the arrival of the second stage in the general crisis of capitalism' made the militant Soviet policy feasible, and the violent hostility of the imperialists made such a policy essential (Vosnesensky in Raina 1983, 70). This claim was exploited by Soviet propaganda to urge the necessity of mobilizing communist forces for an offensive, so that the next stage in the general crisis of world capitalism could be decided in favour of the Soviet camp.

This line of argument strongly contradicted earlier interpretations of Western politics and economics. In a book 'Changes in the Capitalist Economy as a Result of World War II' published in 1946 Varga claimed that the development of state regulation would delay the onset of a general crisis in world capitalism. He argued that the post-war capitalist economy was not facing an imminent crisis and therefore no armed conflict between the Western powers over competition for world markets was probable. The prescription from this analysis was that Soviet activist foreign policy and preparation for challenge of the West was not appropriate.¹

¹ For the Varga-Voznesenski debate concerning possible developments in capitalist economies see Ra'anani 1983, 62-75.

The doctrine of People's Democracy

The shift in Soviet objectives resulted also in a redefinition in ideological terms of the principles governing inter-state relations within the Soviet bloc and the prescription of the proper direction of socio-economic transformations in Eastern Europe. This was necessary in order to provide a framework for debates on policy in the Soviet bloc and indicate 'correct' principles to be implemented by local parties in political practice to ensure conformity with Soviet objectives.

The theoretical basis of the rationalisation for the change in the Soviet Union's methods of political domination was provided by the doctrine of the People's Democracy which redefined the class nature of the political organisation of the newly established states of Eastern Europe and their stage of development. The main assumptions of the doctrine, which replaced the earlier doctrine of 'new democracy', were put forward by Soviet party theoreticians during 1948 in the course of an ideological campaign conducted chiefly in the Cominform journal and the main theoretical party journals. The culmination of the campaign took place at the communist parties' congresses at the end of 1948, when East European leaders proclaimed the class nature of their states as the legitimate form of the dictatorship of the proletariat.

The class character of the state in the countries of Eastern Europe and its 'historic' objectives expounded in the People's Democracy doctrine, appeared to be no different from the ideological categorisations of the 'new democracy' doctrine. The new doctrine similarly identified the class nature of the socio-political order of the Eastern European states as representing 'the rule of the toiling people under the leadership of the working class' and defined its ideological character as being 'a state in the transitional period destined to ensure the development of the country along the road to socialism' (*For a Lasting Peace, For a People's Democracy!* 1 January 1949, 3).¹

¹ Dimitrov's concluding speech at the Bulgarian party congress published as 'Report of Comrade G.M.Dimitrov to the Fifth Congress of the Bulgarian Workers' Party (Communist).

The People's Democracy doctrine changed, however, the ideological definition of political and economic transformations in East European countries which it characterized as 'revolutions of a socialist type'. The new interpretation was advanced on the grounds that, despite initial characteristics of a bourgeois-democratic revolution, the objectives and direction of these transformations were essentially always anti-capitalist and socialist since they served the interests of the working class and the peasantry, which were the decisive class forces in the system of exercising power (Mankovsky 1949, 7). According to Marxist-Leninist theory of socialist revolution and communist construction these elements provided sufficient basis to identify the political organisation in the countries of Eastern Europe as the form of the dictatorship of the proletariat.

In terms of the arguments advanced the People's Democracy doctrine represented a very schematic and unconvincing theory. The main problem stemmed from the fact that the process of acquisition of power by communists did not quite fit the ideal notions of a genuine proletarian revolution. While the doctrine acknowledged these differences, the explanation that the transformation of democratic revolutions in Eastern Europe into socialist ones could be successful because of Soviet assistance was at odds with Marxist theory of social transformation as a rational process subject to the objective laws of the development of the specific socio-economic formations and transition from one formation to another.¹

The central thesis of the doctrine was an alleged identity of the class character of the People's Democracy and the Soviet state. As Dimitrov put it, 'The Soviet regime and the people's democratic regime are two forms of one and the same power - the power of the working class, allied with the toilers of town and country, and heading this alliance.

These are two forms of the proletarian dictatorship.' (*For a Lasting Peace, For a*

¹ The doctrine acknowledged that these transformations differed from those which characterised Soviet revolution. Mankovsky (1949, 7) argued, that despite these differences the class essence of process and its tasks made it closer to a socialist or proletarian than to a bourgeois revolution, and therefore comparable to the Bolshevik revolution in Russia. As Minc (1950, 94-5) explained, 'At the foundation of our difference from the Soviet road lies the all-sided aid of the Soviet Union and reliance on the experience and achievements of the victorious dictatorship of the proletariat in the USSR'.

People's Democracy! 1 January 1949 1, 3). This thesis had important functions in political practice. In connection with other aspects of Soviet doctrine it provided ideological justification for assertion of Soviet primacy in the bloc and the general validity of the Soviet model of socialism. The justification of Soviet leadership was achieved by making a distinction between these two forms of the dictatorship of the proletariat. Thus, while stressing the identity of the class character, the doctrine of People's Democracy made a distinction in terms of the stage or degree of their advancement towards the communist goal. According to this conception the People's Democracy was still 'a state in the transitional period destined to ensure the development of the country along the road to socialism', in other words a state 'in which Socialism has not yet conquered ultimately', while the Soviet Union 'has already completed the building of Socialism and commenced the period of a gradual transition toward Communism' (Minc, 1950, 88).¹ The Soviet Union as more advanced in socialist construction could by definition claim ultimate ideological and political authority in the socialist camp.

Alleged evidence of the Soviet Union's advanced historical stage in the transition towards communism was the persistence in the socio-political order of People's Democracies of many institutions, norms and practices of the bourgeoisie period such as private and cooperative economic sectors, which constituted a socio-economic base for the exploiting antagonistic social classes and capitalist production relations, and hampered the development of socialist construction. By contrast, the Soviet Union was described as a political system where 'there are no antagonistic social classes, capitalism has been totally liquidated, Socialism has been built and a Communist society is being built.' (Minc 1950b, 96).

¹ The Soviet Union declared in 1936 that it had become a socialist society - until then it was the dictatorship of the proletariat.

In addition, the Soviet Union's advanced stage of socialist development provided a basis for the Soviet Union's claim to the general applicability of the Soviet socio-economic order for all the countries in transition to communism, as by definition its principles represented a more mature expression of the universal laws of the transition to communism. A classic statement of the principle of the universality of Soviet experience in the construction of socialism which appeared in 1948 in an authoritative Soviet source read: 'The general laws of transition from capitalism to socialism, discovered by Marx and Engels, and tested, put to concrete use, and developed by Lenin and Stalin on the basis of the experience of the Bolshevik Party and the Soviet State, are binding upon all countries.' (Farberov in Skilling 1951, 141). In practice, the significance of People's Democracy doctrine for East European states was that they were now obliged to acknowledge the general applicability of the Soviet experience and had to adopt the Soviet principles of socialist development defined by the doctrine as socialist industrialization, socialist collectivization, transition to the rule of the communist party and the liquidation of exploiting classes because of the alleged intensified class struggle (Bierut 1949, 27-31).

The coercive character of the People's Democracy doctrine and the prescription of the principles of the Soviet model as the normative elements of the framework of acceptable policies in Soviet bloc countries meant that East European countries had no right to a national road to socialism. As an official text put it 'the countries of People's Democracy do not march along some new, distinct road from that which the Soviet Union took to reach socialism. This kind of statement would mean the negation of the international significance of the experience of the Soviet Union and the basic laws of the transitional period' (Farberov 1948 in Brzezinski 1979, 76).

Soviet doctrine permitted in principle some institutional diversity in the implementation of specific policy issues by East European countries in accordance with national traditions and local conditions and the degree of economic development.

However as a chief ideologist asserted, 'The distinctiveness of form is manifested within the framework of the general patterns of the transitional period, established by the teachers of Marxism-Leninism' (Farberov in Skilling 1951, 139-40). In the light of the People's Democracy doctrine, the internal political autonomy was thus severely constrained by the principles of the Soviet model of development.

The doctrinal determinants of Soviet bloc relations.

The People's Democracy doctrine thus clarified three central issues in Soviet-East European relationship. It provided a rationale for the Soviet Union's leadership and therefore a justification of the political subordination of East European countries to the Soviet Union. Moreover, it stressed the universal validity of the Soviet experience for 'socialist construction'. And finally, it set the rules on the acceptable degree of internal autonomy of subordinate countries in deciding their own political and economic systems.

For our purposes, the critical issue is that these doctrines of institutional and ideological uniformity and of the limited political autonomy of East European countries, remained central in determining the framework of acceptable policies of Soviet bloc countries until Gorbachev's reforms in the late 1980s. As will be discussed in detail in the following chapters, until then the Soviet doctrines of the socio-political order essentially represented a continuation of the tenets and prescriptions of the Stalinist interpretation of the 'correct road to communism'. Even when after 1956 East European countries were allowed a considerable degree of internal autonomy in deciding their policies and their institutional structures, this institutional diversity had still to be reconciled with adherence to the essential features of the Soviet model. Any serious attempt to determine independently their political and economic system was regarded as an infringement of Soviet interests and created a danger of Soviet military intervention.

However, the question still remains, why was there in the Soviet bloc only one set of principles of transition to communism which only the Soviet Union could interpret, and

why was the uniformity of the model of transition to communism so crucial to Soviet domination as to justify the use of force against formally sovereign countries?

The answer to this question lies in the rationalist approach, to use Michael Oakeshott's term,¹ to politics and the hierarchical nature of Soviet bloc politics. Inherent in the allegedly scientific nature of Marxist-Leninist ideology was the notion that there is only one theoretically possible road of transition to communism as the manifestation of the scientifically proven laws, or rational rules, of development. This rationalist conception of only one set of rules to achieve the communist goal, by definition set limits on diversity in individual communist states, but did not exclude a considerable degree of diversity of institutional arrangements. However, in practice, in the case of an association of states whose legitimacy is based on ideological tenets, any kind of institutional diversity which conflicted with prescribed rules would automatically undermine the legitimacy of another government as well as the scientific premises of the ideology. Therefore, in the Soviet bloc there could be only one set of explicit and binding universal rules regarding the acceptable principles of socio-political order.

It is conceivable that this one set of rules could be established and interpreted as a result of common agreement of the Soviet bloc countries. However, this situation would be inadmissible from the point of view of Soviet interests. Firstly, if the principles differed from the Soviet model, this would undermine the principles on which the CPSU's claims to exercise power rested, and thus affect the cohesion and stability of the Soviet system. Secondly, it would also mean that the Soviet bloc states formed a loose federation bound by common interests, and not a system of states with the Soviet Union as a central political and ideological authority.

¹Michael Oakeshott (1962, 1-36) describes as rationalist mode of thinking, or rationalism, in politics an approach to politics, based on a belief that the proper organisation of society and the conduct of its affairs can be based on abstract principles which can be defended on rational grounds.

Thus, the proclamation of the principles of Soviet order defining the only correct way of the transition to communism all the other communist countries had to follow, and the establishment of the Soviet Union's ultimate authority to interpret the universal laws were the vital aspects of political legitimization of the Soviet domestic system and Soviet domination and as such had to be protected by all possible measures.

The methods of consolidation of power and management of bloc relations.

The change in the nature of Soviet-East European relations also manifested itself in new Soviet methods of exercising control over the satellites to ensure the consolidation of power by communist parties. Initially, the enunciation of the People's Democracy doctrine was accompanied by the intensification of terror, which was a real force behind the implementation of these ostensibly 'objective tendencies' in political practice. The methods of struggle for power included the infiltration of decision-making bodies by Soviet agents, false propaganda, intimidation, manipulated elections and arrests, show trials and the physical liquidation of political opponents (Dziewanowski 1976, 183-207). The redefinition of doctrinal concepts was used from the end of 1947 by factions within the leaderships of local communist parties willing to give precedence to Soviet national interests and to wage campaigns against those communists who previously displayed 'nationalistic' tendencies and followed domestic policies in keeping with the peculiarities of their countries' social and economic structures. In Poland, for example, the 'Muscovite' faction accused Wladyslaw Gomulka of anti-state activity and plotting against 'the people's regime', and 'underestimating the relevance of Soviet experience'. They branded his politics as an indication of dangerous nationalist, or even right-wing, pro-imperialist deviations and argued that the time had arrived for the communist parties to claim a monopoly of power (Bierut 1948, 20). In September 1948 he was removed from the post of secretary-general of the party.

By the end of 1948 in every People's Democracy the non-communist parties had been either liquidated or absorbed into national fronts and thus effectively deprived of any influence on national political life (Albert 1991, 569; Brzezinski 1979, 85). The establishment of the monopoly of political and socio-economic power by communist parties subservient to the Kremlin marked the beginning of a new phase of Soviet political hegemony in Eastern Europe.

In the course of the next few years these factional power struggles resulted in mass purges and the staging of show trials of former communist leaders who held ideas too independent of Moscow. High-ranking military officers were accused of spying for the US and Great Britain (Laczynski and Przyjemski 1988, 14). This process was described by the official propaganda as elimination of class enemies and was presented as confirming Stalinist theory of the intensification of class struggle in the Peoples' Democracies. Charges of treason were used to demonstrate the link between an alleged threat from external and internal imperialist enemy forces and the need to intensify vigilance.

The party and state apparatus did not use their powers of intimidation and repression with equal force in all People's Democracies. Nevertheless, in all those countries brutal violations of the rule of law, rule by fear, the destruction of civil society and the limitation of Church influences were all-pervasive phenomena of social life. A crucial element of the repression was direct Soviet penetration of the secret police and armed forces by agents who were directly accountable only to Moscow. In Poland, for example, in staging trials a crucial role was played by Soviet secret police agents who operated independently even of the Polish Politburo Commission for Public Security which was supposed to supervise secret police organs (Rykowski and Wladyka 1988, 14). Other informal methods of the control of East European countries by the Soviet Union included the interference of Soviet ambassadors and diplomatic personnel in their internal affairs and the appointment of Soviet officers to key positions in their armies

(Pioro 1988, 14). For example, in November 1949 a Soviet Marshall, Konstantin Rokossovsky, was appointed as Polish Minister of Defence and Marshal of the Polish Army.

While repression, terror and Soviet infiltration remained critical mechanisms in maintaining Soviet domination, the Stalinist system of rule came gradually to depend on other mechanisms of political control to ensure the consolidation of Soviet power in Eastern Europe and the achievement of Soviet objectives. These mechanisms entailed the organisational unification of the bloc through a network of institutional and informal links in political, ideological and economic spheres, together with pressure to ensure the uniformity of internal socio-economic systems and the development strategies in conformity with the Soviet model. In practice, as the following discussion demonstrates, they were primarily informal in character.

The main element in this network was the cultivation and co-operation of indigenous political elites, with the local communist parties becoming the principal instruments of Soviet policy towards Eastern Europe. By 1949 the monopoly of power in all People's Democracies belonged to communist leaders subservient to Stalin. Within their parties these leaders established for themselves a cult status similar to that of Stalin in the USSR. They valued their loyalty to Stalin more than the traditions and interests of their own societies and identified the interests of their own countries with those of the Soviet Union. As Dimitrov put it, 'The People's Democracy is built in cooperation and friendship with the Soviet Union. Any tendency towards a weakening of cooperation with the USSR is directed against the very foundations of the People's Democracy.' (*For a Lasting Peace, For a People's Democracy!* 1 January 1949, 3).

Their 'sense of common legacy, and ideological closeness' (Passent 1988, 16) ensured the total submission of their regimes to CPSU authority and strict adherence to the prescriptions of the People's Democracy doctrine in following what Boleslaw Bierut

described as 'our road to socialism' (Bierut 1949, 33). The classic example of the sycophantic attitudes which characterised politics in the Soviet bloc at that time was a statement of Hilary Minc (1950, 88), one of the three most powerful men in Stalinist Poland, who declared in 1950, 'The states of People's Democracy develop on the basis of the experience of the dictatorship of the proletariat and Socialist construction in the USSR, of the theoretical generalization of this experience given by Comrade Stalin and of the priceless direct indications and advice of the CPSU (Bolshevik) and Comrade Stalin personally.'

The imposition of uniform political and economic patterns in East European countries took place over a period of about two years, from mid-1947. The main features of this policy were the adoption by satellites of ideologically, organisationally and functionally uniform institutions, control mechanisms and structures modelled on the Soviet system. In the economic sphere this involved the introduction of Soviet-style planning, which substituted for the market as the regulator of economic processes, and allowed the assumption by the state of responsibility for both day-to-day and long term direction of key economic processes, and the implementation of economic development strategy based on the Soviet experience. The effective rights of East European countries to take into consideration the specific historical and national features of each country in conducting their policies were restricted by the extremely rigid application of the doctrine.¹

The introduction of uniform institutional arrangements in individual states of the region enabled the Soviet Union to impose structural control upon its satellites which served to facilitate Soviet interference in their internal political and economic processes. It enabled the penetration of such organizations as planning bodies, specific ministries and other key national structures by Soviet advisers, and facilitated contacts between

¹ As Jakub Berman (1956, 89) later admitted at the 8th Plenum of the Central Committee of the Polish United Workers' Party on 19-21 October 1956, 'there was plenty of mechanical copying of practices which originated in the Soviet Union'.

institutional counterparts in the Soviet Union and other socialist countries. In this way the functioning of their systems was made easily subjected to Soviet manipulation and subordinated to the realization of Soviet aims. For example, through the imposition of the Soviet system of planning and management, the Soviet planning office, Gosplan, could easily control the planning offices of Eastern Europe through the same planning methods and institutional arrangements and be directly involved in the restructuring of socialist economies, the implementation of strategies of growth and their militarisation in 1950-53. In addition to joint companies which operated in every country except Poland, Soviet direct involvement in the drawing up of long-range plans was the primary mechanism through which the Soviet Union imposed its economic preferences on Eastern Europe in the Stalin era.

Another feature of the strategy of uniformity was the transformation of national economies on the basis of the Soviet economic development strategy which originated in the Soviet Union in the 1920s and 1930s and was implemented in the course of the first Soviet five-year plan. The strategy was aimed, firstly, at accelerated development of the nationalised sector of the economies. In Eastern Europe the first nationalization decrees of 1945-46 had left many areas of the national economies, even manufacturing enterprises, in private hands. The exception was Poland, where the implementation of the Nationalization Law of 3 January 1946 rapidly increased the importance of the state sector in the economy.¹ However, the second wave of nationalisation associated with adoption of the Soviet model and aimed at the elimination of 'capitalist elements' which started at the end of 1947 led to the complete transformation of the Eastern European systems of property relationships by 1952. It resulted in an extension of the socialized sector to embrace all banking and insurance, all wholesale trade, a substantial section of retail trade, the construction industry and all but the smallest industrial enterprises, and

¹Already by the end of 1946 the production of the 'socialist sector' of industry was 91.2 per cent of total industrial production, while that of the private sector amounted to 8 per cent. In 1948 this ratio amounted to 94 per cent and 6 per cent respectively.

the almost total elimination of the private and cooperative sectors (Economic Commission for Europe 1953, 28, 37).¹ In the agricultural sector forced collectivisation led to the rapid increase in the number of collective farms and establishment of cooperatives in the villages (Economic Commission for Europe 1953, 37).

The second major objective of the economic strategy was creation of comprehensive maximally self-sufficient industrial structures based on heavy industry and machine building. The economic plans adopted by the People's Democracies in 1949-50 aimed at rapid industrialization by means of an increase in the share of investment in GNP to very high levels - 19-27 per cent - at the expense of consumption (Economic Commission for Europe 1953, 27). The investment funds were allocated primarily for the development of heavy industry, particularly the mining, metallurgy, and machine-building industries at the expense of the consumer and agricultural sectors of the economy.² As a result the production plans in all of East European countries showed very similar increases for many groups of products in such key areas as engineering industry, coal, steel and electric power, in spite of big differences in their natural resources for such production (Economic Commission for Europe 1953, 217). The original asymmetry of planning targets in favour of heavy industry was further distorted following the outbreak of the Korean War in 1950, when an expansion of armaments production was given an absolute priority in all East European countries. The revisions of plans at the expense of light industries and agriculture in the wake of the war resulted in the CMEA economies functioning as 'half-war economies' between the years 1951 and 1953 (Minc 1956, 123).³

¹For detailed information on the degree of nationalisation of industry and socialization in Eastern Europe in 1952 see Table 9, 28 and Table 13, 37 (Economic Commission for Europe 1953).

²For example in Poland 46 per cent of total investments were allocated to the development of industry, and in this latter portion, 85 per cent to heavy industry (Montias 1962, 61-62). See also Table no 7 in Economic Commission for Europe 1953, 24.

³ East European governments began to devote considerable sums to expenditure on defence in 1950. The estimates published in government budgets suggested that in 1952, the ratios of direct defence expenditure to investment expenditure were about one-quarter in Czechoslovakia, one-third in Poland and Hungary, and nearly one-half in Bulgaria (Economic Commission for Europe 1953, 29).

The consequence of the comprehensive development of individual economies without specialisation consistent with their natural resources and technological potential, and the lack of coordination of investment programs between the Soviet bloc countries was the development of identical industrial branches in national economies and creation of mutually competitive rather complementary industrial structures within the bloc. Furthermore, ignoring dynamic 'comparative costs and the possibilities of securing maximum advantage from international trade' (Economic Commission for Europe 1955, 127) led to a grossly inefficient allocation of resources and production of commodities which could not even in the long run be produced economically (Bakos 1987, 20).

From the point of view of Soviet political objectives, the long-term effect of the imposition of the Soviet-style development strategy on the East European economies was beneficial, however, as it engendered a dependence of Eastern Europe on the Soviet economy. By forcing its satellites to specialize in heavy industrial products regardless of their raw material base or the construction of large steel works dependent on iron ore supplies from USSR¹ the Soviet Union generated structural dependence on deliveries of vital Soviet raw materials.² As the discussion in following chapters will demonstrate, the dependence on Soviet economy became a major determinant of the course of postwar economic development in East European countries as well as the subsequent model of their intra-CMEA trade exchanges and commercial relations with the rest of the world.

Factors determining the establishment of the CMEA. Postulated strategy and mechanisms of economic cooperation.

¹ These steel works were located not in port cities to maximize the advantages of cheap water transportation, which is the standard practice, but at the sites where iron ore from the distant Soviet mines could be delivered (Economic Commission for Europe 1955, 127).

² H.Minc (1950 b, 17) in his speech at the Fifth Plenum of the Central Committee of the Polish United Workers' Party on 15 July 1950, on the Six-Year Plan of Economic Development and Laying Socialist Foundations in Poland, thus rationalised Poland's dependence on Soviet raw materials, 'The reliance of the economic development on imported raw materials, to the extent they come from capitalist countries, always poses a serious threat for industrial development. On the other hand, it is self-evident that we should seek to develop our raw material base as a part of the economic potential of the great anti-imperialist camp led by the Soviet Union.'

The establishment of CMEA in January 1949 took place at time when the consolidation of Soviet political, ideological and economic domination of Eastern Europe had been virtually completed. In all the countries of the region local communist parties run by leaders loyal to the Soviet Union and accepting its authority, had a monopoly of power. Domestic transformations were patterned after the Soviet model guaranteeing State control of the economies and planned regulation of economic processes. Their domestic economic policies followed Soviet industrialisation strategy and their priorities were effectively determined by Soviet preferences.

The official communique on the creation of the CMEA published on 22 January 1949 did not reveal much about the purpose and functions of the organisation. As the main reason for its establishment it nominated the West's boycott of trade relations with the People's Democracies because of their rejection of the Marshall Plan. The communique also stressed economic motives leading to the organization's creation: the apparently significant successes in the development of economic relations between the People's Democracies and the USSR, which allegedly formed an objective basis for the establishment of wider economic cooperation. The professed aim of the CMEA was the exchange of economic experience, extension of technical aid to one another and rendering of various types of mutual assistance. Cooperation was to be conducted voluntarily - decisions were to be taken only with the agreement of 'interested countries'. However, the communique did not set out specific methods and instruments of future cooperation (Butler ed. 1978, 123).¹

The causal relationship between a decision to establish CMEA and the completion of consolidation of Soviet power over East European countries and tensions in East-West relations has not been disputed in the literature. Scholars agree that the political significance of this decision was to demonstrate enforced unity of members of the Soviet

¹ 'On The Creation Of The Council Of Mutual Economic Assistance', fully cited in Butler ed. 1978, 123.

camp in the conditions of confrontation between the US and the Soviet Union. They also point out that the decision had an economic motive. It was a reply to the Marshall Plan and to the economic integration of the West European countries that the Plan was intended to promote. It was also a response to the policy of isolation of Soviet bloc countries which was reinforced by the US by the introduction in March 1948 of a comprehensive system of export licences on all goods intended for export to socialist countries - a policy which was later adopted by countries in receipt of assistance under the Marshall Plan.

However, the fact that these developments provided stimulus for the establishment of CMEA explains neither what the founding countries sought to accomplish, nor the role played subsequently by the organisation. In order to answer these questions, it is necessary to analyse other statements and primary and secondary sources on the Council's early policy meetings outlining postulated principles of economic cooperation and the actual CMEA functions. It must be noted that CMEA activities were hardly mentioned in official contemporary Soviet pronouncements and the documentary evidence is still limited. Therefore, most information pertaining to this period comes from high-ranking East European politicians who participated in the preparations for the setting up of CMEA and attended those meetings or may legitimately claim to have had access to authentic documents.

According to these sources, East European leaders who embarked on industrialisation strategies while facing the disintegration of traditional European economic links, and denied access to the Marshall Plan by the Soviet Union, held high expectations of the CMEA (Rozanski 1987, 15). They expected that CMEA would facilitate multilateral economic cooperation between member states through such mechanisms as: the coordination of national development plans, the introduction of a common currency, multilateral clearing in trade relations and the setting up of a multilateral clearing centre in Moscow. They were also interested in the new

organization's assisting in the coordination of trade policies of its members towards capitalist countries (Rozanski 1987, 15-6). Selucky (1985, 5-6) referring to information by Slansky, a Czechoslovak representative at the CMEA constitutive meeting, has confirmed these comments, adding that Czechoslovakia was interested in economic specialisation, the coordination of foreign trade and of the development of a raw material base. Poland hoped to introduce coordination of both foreign trade and long-term economic plans, and the transfer of know-how and technology. Hungary proposed the coordination of economic plans and the unification of planning methods, and Bulgaria and Romania sought economic aid. Implicit in East European proposals was the concept of a joint regional development strategy of multilateral economic cooperation by means of coordination of economic plans by economically sovereign countries.

Furthermore, several sources claim that apart from the official communique, members signed also a 'secret protocol', which was quite specific about the intended functions of CMEA and its methods of cooperation (Sulzberger 1949, 1 and 4; Brabant 1989, 20-3; *Sprawy Międzynarodowe* 1994: 3, 130).¹ This protocol was allegedly discussed at the high-level conference on 5-8 January 1949, and signed on 18 January, thus preceding the CMEA's official founding date.

The provisions of the secret protocol seemingly reflected Eastern European priorities. The protocol set out as the principal CMEA objectives the development of a strategy of regional economic interdependence based on specialisation in key areas by means of the coordination of economic plans of member countries, the coordination of foreign trade plans and exchange of scientific and technical information (Ciamaga 1965, 49). To avoid parallel development of high-cost industrial sectors and save on scarce capital resources, the protocol also envisaged investment coordination including the long-term transfer of

¹ The document 'Informacja o Działalności Rady Wzajemnej Pomocy Gospodarczej: 1949-1956' was prepared at the request of the Polish Prime Minister on 8 December 1956 and circulated only amongst inner government officials. It was marked 'strictly confidential' and held securely in the Archives of the Polish Ministry of Foreign Affairs until its publication in *Sprawy Międzynarodowe* in 1994.

capital resources through mixed companies, in particular in fuels, energy and the extraction of basic raw materials. The protocol, furthermore, provided for the establishment of a joint fund, worth 100 million rubles (ca US\$ 20 million at the 1949 official ruble-dollar exchange rate) whose purpose is difficult to determine, as it was too small for any important clearing operations and could not possibly contribute to multilateral cooperation and settlements. The protocol also established as the highest organ of the organisation the Council Session, with a Secretariat as the executive organ (Sulzberger 1949, 4).

In light of the provision empowering the CMEA Secretariat to develop a general common plan for member countries, these provisions assumed, however, quite a different meaning to that originally proposed by the East Europeans. In practice, a common economic plan was to be drawn up initially, during the transition period until 1950, on the basis of the national economic plans of the members, which were to be elaborated in accordance with regional requirements as advised by the Secretariat. After 1950, the plan was to be drawn up directly by the Council organs which were to hand down instructions to the national planning agencies of the individual members (Brabant 1989, 21). Furthermore, the CMEA was entitled not only to detailed and full information from its members, but it was also authorized to send both observers and advisers to member states, which were 'obliged to accept and follow their advice'. Each member was also obliged to furnish monthly reports of its economic and financial situation (Sulzberger 1949, 4).

The provisions thus defined the CMEA's task as the formulation of the regional economic cooperation strategy on a basis of a common plan. They gave also the CMEA Secretariat the powers of a de-facto supra-national authority with full access to pertinent information and wide-ranging decision-making powers to allocate resources and to make decisions about international specialisation, with the national planning agencies clearly subordinate to its authority. The protocol in effect formalised the supervision of East

European economies by Soviet advisers. Indeed the goal was apparently to eliminate during a transition phase all attributes of economic sovereignty in national economies (Cizhkovsky 1970, 254 in Brabant 1989, 37).

These powers given to CMEA and the conduct of cooperation under a joint economic plan were clearly incompatible with East European proposals. Given the extent of political subordination of Eastern European members, the inevitable outcome of the transferral by the national states of Eastern Europe of their sovereign rights in the areas of planning and management of the economy to a supra-national body would have been the determination of directions of their economic development by the Soviet State Planning Commission and of their policies by the CPSU; in other words, the de-facto incorporation of Eastern Europe into the Soviet Union with only the appearance of formal independence.

The protocol's implications leave no doubt that the conception of CMEA's powers and its functions was a Soviet proposal. The Soviet motive for the establishment of the organisation was to use it as an additional instrument of subordination of Eastern Europe to Soviet objectives in the region through ensuring the implementation of their production plans in accordance with the Soviet Union's priorities. Thus the motives for establishing the CMEA were primarily political. The Soviet's aim was to integrate East European economies with the Soviet Union's. While the provisions of the protocol indicated that there were significant differences between East European members and the Soviet Union with regard to the powers, objectives and methods of CMEA, ultimately the Soviet Union controlled the agenda and Soviet position set the framework for cooperation.

The formulation of principles of CMEA economic cooperation until 1954.

The activities of the CMEA from 1949 till mid-1954 can be divided into two distinct stages. The first, one of considerable activity, covered the period until November 1950 when the highest CMEA organ, the Council, met three times. The second was

characterised by the limitation of CMEA's functions to technical facilitation of trade contracts and lasted until the fourth Session which was held in March 1954, a year after Stalin's death.

The first official Session in April 1949 discussed the main objectives and methods of cooperation. CMEA members expected that the organisation would assist in solving the issues of critical importance for their economic strategies: the economic reconstruction of individual economies, acceleration of growth, elimination of differences in national levels of development and scientific-technical cooperation. The Session's agenda included a comprehensive array of areas which seemed to reflect the preoccupations of East European leaders with establishing proper mechanisms for fostering regional economic cooperation, which had been raised earlier during the initial negotiations. Members agreed on the need to discuss the coordination of economic plans to foster production specialisation and cooperation, the coordination of foreign trade plans and expansion of mutual trade, plans to widen transport and transit facilities, multilateral clearing, proper exchange rates, regional settlements, regional prices, and the stimulation of the development of scientific-technical cooperation (Brabant 1989, 31). There is, however, no record of discussions concerning the granting of supra-national powers to CMEA.

The agenda also included issues which were clearly chiefly political: the conduct of trade relations with the West (especially measures to offset or counteract the effects of the restrictive export policy measures which had been undertaken by the West) and economic relations with Yugoslavia, whose application to join the CMEA was turned down by the Soviet Union which had accused it of hostile policy toward the Soviet Union and the People's Democracies.

The first Session also established the Bureau of the Council, an executive organ of the Council, which had decision-making powers between Council Sessions, and was to prepare background materials and recommendations for higher-level negotiations on

policy issues and for decisions and recommendations to be discussed at the plenary meetings of the Council. It was thus a supervisory and policy-making body (Brabant 1989, 27-8). The working apparatus of the Bureau was the precursor of the Secretariat officially established in 1954.

The second Session, in August 1949, discussed issues raised at the first session. The issues on which members reached agreement can be divided into two categories. The first was concerned with coordination of foreign economic policies of CMEA members and included principles that should govern the exchange of East-West trade and the imposition of sanctions against Yugoslavia. The Session recommended that CMEA members coordinate their policies vis-a-vis the West, in particular their export and import plans for products of critical importance for their economies, and export and import pricing policies, and advocated maximum possible self-sufficiency of the region. Members also committed themselves to an exchange of information on economic negotiations with capitalist countries, and agreed on measures to counter Western discriminatory measures and embargos. These measures clearly gave CMEA effective powers to control the volume and directions of foreign trade. In fact a special commission of the Bureau on trade with capitalist countries was established in order to control exports of critical goods (Slama 1979, 26 in Brabant 1989, 3).

The second category of recommendations related to issues of intra-bloc cooperation, such as pricing policies, the change of mutual trade agreements from an annual to a long-term basis in line with a change in planning in the national economies, the provision of scientific-technical documentation free of charge, questions of normalisation and standardization of production, and agreements on specialisation in ball bearings (Kaplan 1977, 85-6 in Brabant 1989, 32-3).

The Session, however, did not adopt any recommendations on mechanisms of cooperation, such as the coordination of plans and setting specialisation directions, and

the introduction of conditions for multilateral trade. On these issues of fundamental importance for implementation of a joint cooperation strategy no definitive consensus was reached. The discussions were marked either by irreconcilable differences, as in the case of resource allocation and the coordination of plans, or only partial agreement was reached on matters such as the introduction of multilateral clearing. While the meeting endorsed a number of principles for the introduction of multilateral clearing as the main mechanism for settling trade and payment accounts, a final decision was put off until 1950 (Brabant 1989, 32-3).

The proceedings of this Session thus seem to indicate that CMEA members had opposing views on the strategy the organisation should pursue and the autonomy of individual economies in the decision-making process. There seem to have been two groups: one interested in fostering economic cooperation and a regional division of labour by means of plan coordination supported by indirect economic coordination: proper exchange rates, adequate pricing and a multilateral clearing centre, but against comprehensive planning at the regional level.¹ The second group was opposed to this strategy and presumably supported the formulation of a common economic plan for the entire region. This group probably included the Soviet Union and less industrially developed CMEA member countries, which were interested in economic aid in order to carry out their industrialization and modernization strategies and would not have benefited from cooperation based on comparative costs.

The outcomes of the Session suggest that the Soviet Union controlled the agenda and its conception of the CMEA functions prevailed. As a result, CMEA's role was subordinated to Stalin's objective of securing Soviet control over the region's economic policy, in particular its trade with the West and Yugoslavia, and investment decisions. Soviet actions effectively deprived East European countries of mechanisms necessary to

¹The Bureau and other research agencies were apparently actively engaged until at least mid-1950 with research on goals and means of plan coordination and trade and financial instruments which would be suitable for the economic cooperation of planned economies (Faddeev 1974b, 130-1).

elaborate a joint strategy of economic cooperation. The absence of any record of discussion concerning the granting of supranational powers to the CMEA suggests that the Soviet Union decided not to formalise this policy.¹

This discussion of the outcomes of CMEA Sessions contradicts Brabant's interpretation of early CMEA policies. Brabant has argued that all members were interested in the formation of an organisation for the elaboration of regional economic policy in order to enhance regional economic interdependence through a common economic plan (Brabant 1989, 36-7). Furthermore, there is no evidence that all CMEA members involved in the initial debates agreed to pool resources to foster the international socialist division of labor under the umbrella of CMEA and that their aim was to eliminate national planning (Brabant 1989, 35, 37-8).

1949-1950: The actual functions of CMEA.

Even though a formal decision to grant CMEA supranational powers was never announced, in actual practice, in the period from its establishment until the 3rd Council Session in November 1950, the CMEA operated as a de facto supranational authority. This role of the CMEA was confirmed by an authoritative Polish document, dated 8 January 1957, marked 'strictly confidential', which was released in 1994 after the disintegration of the Soviet bloc (*Sprawy Międzynarodowe* 1994: 3, 129-41). According to this document the CMEA determined the directions of development and set production targets to be met by key sectors of individual national economies of the member countries. It also controlled the volume of mutual deliveries of selected, usually strategic, goods through the pressure for conclusion of long-term trade agreements (*Sprawy Międzynarodowe* 1994: 3, 129).

¹ According to a Polish historian, even the most pro-Soviet Polish communist leaders seemed to have understood the importance of the maintenance of formal attributes of sovereignty for ensuring social support for their policies (Dmitrow. 1989, 13).

In this period economic relations of CMEA members were thus decided unilaterally by the Soviet Union which issued directives to East European national bodies and determined the levels and structure of intra-bloc exchanges by means of trade agreements. Trade agreements were also used by the Soviet Union as means of the enforced reorientation of foreign trade in favour of relations within the bloc, in line with the objective of achieving self-sufficiency for the bloc.

These functions of CMEA were consistent with Soviet objectives in the region. Firstly, by determining production targets and forcing East European countries to take into account the import requirements of other bloc states and to supply them with required capital goods they were aimed at mobilising resources needed to achieve industrialisation objectives. Secondly, this policy was instrumental in a reduction of trade with the West, thus weakening traditional economic links with Western Europe, which was a prerequisite for integration of East European economies with the Soviet Union's.

The redirection of foreign trade towards intra-bloc exchanges must have been, however, partly not a matter of choice but a consequence of the economic embargo imposed in 1948 by the US involving the restriction of sales of machinery and equipment to the Soviet bloc countries, and the creation of the Coordinating Committee for East-West Trade Policy (COCOM) in November 1949. These discriminatory measures led to contraction in 1949 of Western exports to Eastern Europe to one third of the volume in 1938.

In particular, pressure was put on Czechoslovakia and the GDR, which had been forced to reduce their trade with the West and supply capital goods to less advanced CMEA members. Thus Czechoslovakia was forced in 1949 to adjust its economic plan of industrial production to the requirements of other bloc countries and to take over to a large extent Germany's role in the field of engineering production. As a result of this enforced reorientation of trade, the share of Eastern European economies in the total trade

of Czechoslovakia rose from 20 per cent in 1947 to 37.9 per cent in 1948 (Economic Commission for Europe 1950, 94). In dollar terms, Czechoslovakia's trade with other East European countries tripled from 1948 to 1953 (Economic Commission for Europe 1955, 113).

The Soviet Union used also CMEA as an instrument of control of economic policies of its members to advance its foreign policy objectives. In this function the CMEA replaced Cominform which by 1949 ceased to be an active instrument of Soviet foreign policy in Eastern Europe having proved totally ineffective in forcing Yugoslavia to accept the Soviet Union's authority. Firstly, CMEA was used by the Soviet Union as an instrument of the implementation of economic sanctions and blockade following the breaking of political relations with Yugoslavia. Under Soviet pressure, individual East European countries unilaterally abrogated all trade agreements with Yugoslavia, and Yugoslavia's foreign trade with the Soviet bloc countries virtually ceased to exist from 1950 to 1953. This move to isolate Yugoslavia economically was clearly incompatible with the economic priorities of East European countries which tried to maintain their trade commitments as long as it was possible. For instance, Czechoslovakia and Poland did not cease trade deliveries to Yugoslavia until a year after its expulsion from the Cominform.¹

Secondly, far from fostering multilateral cooperation links, CMEA served as an instrument of preempting bilateral contacts between individual East European countries and endeavours for multilateral economic cooperation in the region. On Stalin's orders the activities of the bilateral Polish-Czechoslovak Commission for Economic Cooperation were suspended and plans for co-operative efforts were abandoned in the early 1950s. Similarly, the plans for the Balkan federation were stopped. Instead, in an

¹ In May 1949, in an act of retaliation, Hungary stopped at its border Czechoslovakian deliveries of trucks, spare parts and tires. Czechoslovakia maintained economic relations with Yugoslavia until June 1949, observing its trade commitments. In fact the two countries signed on 2 March 1949 an agreement maintaining trade at the 1948 levels. Poland suspended all trade deliveries to Yugoslavia in July 1949 following similar action to that already taken by Czechoslovakia, Hungary and Albania (Singleton 1985, 219).

attempt to control economic relations between its satellites, the Soviet Union put some of the issues which were the subject of the unsuccessful project of Polish-Czechoslovak cooperation on the agenda of the first CMEA Session.

These moves on limitations of possible interaction between East European economies paralleled the reliance on a radial pattern of relationships between the Soviet Union and individual East European countries in the political sphere. This pattern of chiefly bilateral economic relations between the Soviet Union and its satellites had beneficial political ramifications, as it provided Stalin with much more effective levers of control over economic activities of local parties than would be possible in multilateral dealings and thereby prevented the building up of a politically stronger Eastern Europe.

Conclusion

In the initial two years of CMEA operation, even though the Soviet Union apparently chose not to pursue a formal policy of supranationalism, it pursued it nevertheless in practice by interference in domestic economic policies of the East European countries. The CMEA was thus effectively an umbrella under which Gosplan integrated their economies into Soviet economic planning and forced them to redirect their trade links. CMEA was thus an effective instrument of achievement of Soviet political and economic objectives in the region. In this role CMEA supplemented the other informal instruments of direct interference in domestic policies and economic exploitation described earlier.

The permissible methods of economic cooperation based on long-term bilateral agreements were also determined by the Soviet Union which did not allow to establish a mechanism for coordination of economic policies. As the decision-making powers regarding the strategy and methods of cooperation belonged to the Soviet Union and served its objectives, none of the East European proposals for genuine economic cooperation was accepted and CMEA did not play the role of an organisation for regional cooperation based on specialisation and multilateral cooperation.

The consequences of CMEA operation for East European economies were largely negative as they resulted in breaking traditional links with the West and reinforced the negative results of Soviet-style development strategy which disregarded economic scarcities as criteria for allocation of resources. These links which were formed between member economies were characterised by the subordination of economic criteria of efficiency to political considerations as allocation of resources was determined by Soviet allocation priorities.

1950-54: Intra-bloc economic cooperation and operation of CMEA

The 3rd Council Session, held in November 1950, seemed to promise a return to genuine multilateral co-operation as it renounced the functions of CMEA as a supranational authority as 'erroneous' (*Sprawy Międzynarodowe* 1994:3, 130). The actual implication of the Session's decisions was, however, the reduction of CMEA's role to the regulation of intra-bloc trade, by means of bilateral long-term trade agreements (Ciamaga 1965, 49). In effect this decision, given the inherent limitations of long-term trade agreements as a tool of coordination of economic policies, which will be discussed in chapter 2, put an end to discussions on the fundamental questions of economic cooperation such as the coordination of plans, pricing and financial mechanisms, and meant a formal renunciation of idea of CMEA as an organisation for the coordination of national economic policies.

It also represented the formal recognition of the actual downgrading of the CMEA's role which occurred when the Soviet Union abruptly ceased active participation in the CMEA's Bureau at the time of the outbreak of the Korean War on 25 June 1950 (Brabant 1989, 39). Ausch (1972, 44), who at that time was a member of the CMEA Bureau stated that the reason for putting an end to CMEA activities as an organisation for economic cooperation was Stalin's intervention. Stalin proposed that instead of work on the coordination of plans and attempts to elaborate the common economic policy, intra-

bloc economic relations should be based on bilateral agreements and autonomous national decisions.

Without access to original documents it can be only deduced that Stalin must have decided that the continuation of CMEA's functions could have led to the allocation of industries on the basis of more rational principles than those which could have been imposed by the Soviet Union by direct plan instructions. This decision must be linked to new Soviet foreign policy objectives, in particular the guaranteeing of the Soviet bloc's conventional military superiority in Europe. These new Soviet military objectives led in turn to broadening of its goals in the region to include the restructuring of the satellite economies and their militarisation.

The need for an expansion of armaments production was promoted by a propaganda campaign, which had begun in 1949, emphasising the imperialist threat and fostering a 'siege mentality'. Scholars, who like Eugen Varga disagreed with the official interpretation, were forced to retract their views (*New York Times* 28 April 1949, 11).¹ The campaign intensified in November 1949, when NATO was formed and a number of high-ranking Soviet party and military officials warned of the danger of a new war against the countries of the Soviet bloc, the preparation for which was being openly conducted by imperialists in the US and England (Shulmann 1963, 118-19). At the height of the Korean War the campaign gained another dimension, with the official Soviet line claiming that increased US war spending was bound to cause a 'tremendous economic crash' in the capitalist world. This apparently justified further military spending in the Soviet bloc in preparation for an eventual attack on a weakened enemy (*Pravda* 23 March 1951, 1).

¹In his book 'Changes in the Capitalist Economy as a Result of World War II' Varga argued that the post-war capitalist economy was not facing an imminent crisis and that an armed conflict between the Western powers over competition for world markets was improbable. Following self-criticism Varga advanced a new interpretation in line with the official Soviet view (*New York Times* 13 June 1949).

The achievement of these objectives and subordination of the East European economies to the requirements of the military sector was much easier through the direct involvement of the Soviet planning office, Gosplan, in the drawing up of long-range plans and its control of the planning offices of Eastern Europe than by using consultations within CMEA. By then, the Soviet Union had already established the pattern of structural-institutional control described earlier, allowing the management of bloc relations through direct interference by Soviet political, economic and military decision-making bodies in the activities of their East European counterparts. It was through these methods of structural subordination, especially through Soviet direct intervention in the formulation and implementation of national economic plans, that the Soviet Union primarily determined economic policies of satellite countries, and put direct pressure on plan revisions of 1950 and 1951 to subordinate their economic development to the requirements of the military sector (Minc 1956, 123). In other words, the discontinuation of CMEA activities at the policy-making level was the result of a potential conflict of its operation with immediate Soviet political and economic interests.

This interpretation of the reasons for the redefinition of CMEA's role following Stalin's intervention is consistent with the official account of CMEA activities contained in a Polish government document 'Informacja o działalności RWPG w latach 1949-1956' (*Sprawy Międzynarodowe* 1994: 3, 130) and the report by Henryk Rozanski (1990, 43-5), a Polish representative in the CMEA. According to these accounts, in the years following the Soviet Union's withdrawal from the active participation in CMEA until the 4th Session in 1954, the Bureau, with reduced staff numbers, concentrated on economic collaboration among East European members, and limited its work to the practical questions of facilitating trade relations and scientific-technical cooperation. Consequently, the CMEA's activities were limited to the organisation of trade links between member countries, facilitating regional transportation, the standardization of foreign trade contracts and statistics, the coordination of exchanges with capitalist

countries and the elaboration of permanent arrangements for scientific and technical co-operation such as joint commissions (*Sprawy Miedzynarodowe* 1994, 130). It was not involved in negotiating trade agreements but was concerned with finding ways to remove bottlenecks and shortages of strategic raw materials. The Soviet Union, while strictly controlling its activities, did not supply it with any information (*Sprawy Miedzynarodowe* 1994: 3, 139).

The CMEA was however useful in meeting other Stalin's objectives of weakening of links with the West and the formation of a separate socialist market. Stalin's viewed the progressive establishment of stronger economic ties within the Soviet bloc, with a concurrent deterioration in the East-West trade relationship, which led to the formation and consolidation of 'two parallel world markets' as a positive development. In his 'Economic Problems of Socialism in the USSR' which appeared in the spring of 1952, he regarded '[t]he disintegration of the single, all-embracing world market as the most important economic sequel of the Second World War and of its economic consequences' (Stalin in Franklin ed. 1973, 468). He believed that his strategy of development of intra-bloc relations would lead not only to self-sufficiency of the bloc, but in time also to expansion of its exports at the cost of capitalist nations. This in turn would contribute to the deepening general crisis of world capitalism, including wars between capitalist countries which could be exploited by the communist bloc to achieve ultimate victory. He argued

'It may be confidently said that, with this pace of industrial development, it will soon come to pass that these countries will not only be in no need of imports from capitalist countries, but will themselves feel the necessity of finding an outside market for their surplus products. It follows from this that the sphere of exploitation of the world's resources by the major capitalist countrieswill not expand, but contract; that their opportunities for sale in the world market will deteriorate, and that their industries will be operating more and more below capacity. That, in fact, is what is meant by the deepening

of the general crisis of the world capitalist system in connection with the disintegration of the world market' (Stalin in Franklin ed. 1973, 468-9).

The most tangible outcome of this pressure for reorientation of trade were increases in intra-bloc trade both in absolute and relative terms and overall changes in the pattern of foreign trade of this group of countries in favour of regional exchanges as a result of reorientation of trade away from Western Europe. By 1952, the communist countries conducted from 67 per cent to 100 per cent of their foreign trade within the bloc, and from 29 to 58 per cent with the USSR.¹

However, the expansion of trade within the region did not in itself mean that a regional division of labour had been initiated. The indication of such a division of labour would not be the growth of trade exchanges per se, but a growth of exchanges resulting from production specialisation. As discussed earlier, the coordination of production and capital investment policies, which is essential for production ties, was never implemented even between the Soviet Union and the smaller communist countries except for agreements on ball bearings, and, as a result, production ties were of marginal importance in intra-bloc economic exchanges.

Furthermore, not only there was no regional division of labor implemented, but East European countries pursuing strategies with autarkic tendencies, in the absence of any mechanism for coordination of economic policies, developed parallel high-cost industrial branches without regard of their raw material base. Mutually competitive rather than

¹ The dramatic reorientation of the Polish foreign trade geographical pattern is illustrative for other East European countries. By the early 1950s, the Soviet Union became the major trading partner; its share in Polish foreign trade increased from 1 percent in the interwar period to 22 percent in 1948, and 32 percent in 1952. At the same time the share of capitalist countries in Polish foreign trade declined dramatically from 93 percent in the 1930s, to 66 percent in 1948, and 33 percent in 1952. Before the forced reorientation the share of capitalist countries in Poland's exports increased between 1946 to 1950 from 40 to 47 percent, and in imports- from 20 to 40 percent. The diminishing trade contacts between CMEA members and capitalist countries were also evidenced by the fall of the communist bloc's imports from the Co-Com countries from US\$900 to \$450 billion between 1947 and 1953. Before the embargo was imposed the socialist countries were obtaining more than 25 percent of their import requirements from the Co-Com nations, the proportion fell to less than 7 percent in 1952 (Wilczynski 1969, 284).

complementary industrial structures within the bloc inevitably had a detrimental influence on the export opportunities of individual countries.

CMEA also presided over other moves towards the development of a separate market area. The 3rd Session made a decision to change the pricing system used for intra-CMEA trade from current world market prices to an artificial pricing system of the so called 'stop' prices based on 'cleansed' and averaged world market prices, that is, prices on the main capitalist markets of an earlier period (Soldaczuk et al. 1983, 396-7).¹ This move away from world prices was officially explained as a result of a rapid increase in world prices during the Korean war and a desire to protect domestic economies against cyclical and speculative fluctuations of world prices. However, its main purpose seemed to be to separate the Soviet bloc market from markets of capitalist states.

The CMEA also elaborated in 1952 'Basic Indicators for the Application of Operational Reports on Foreign Trade', permitting the creation of uniform foreign trade classifications. As it was approved very soon after the United Nations Organisation elaborated its own Standard International Trade Classification (SITC) and the Soviet bloc classification hardly diverged from the SITC procedures and it was implemented only in 1959, this implies a deliberate symbolic step towards a further separation of the 'socialist market' from the capitalist one (Kaser 1965, 48-9).

Conclusion. The results of intra-bloc economic cooperation in the Stalinist period.

This chapter demonstrated that during the Stalinist era the primary factor which determined CMEA strategy, its functions and methods of cooperation were Soviet political and economic objectives in the region and methods of managing bloc relations. CMEA was established for primarily political reasons in order to integrate East European

¹One of the main methods of 'cleansing' of world prices, or their objectivisation, was a formula of 'averaging' world prices over a preceding five-year period and maintaining fixed or stable contract prices for a predetermined period.

economies with that of the Soviet Union. This was considered by Stalin to be the best guarantee of ensuring political stability and securing Soviet strategic interests in the region. The priority was to ensure the Soviet Union's dominant position in the economic activities of the bloc and self-sufficiency through control over the economic policies of individual economies. This was not an easy task, because of traditional trade links of Eastern Europe with Western European countries.

CMEA was used by the Soviet Union to implement Soviet objectives through reorientation of trade, creation of industries which would permanently tie East European economies to the Soviet market and making the region dependent on Soviet resources.

The main objective of Stalinist economic policy was thus not the integration of the bloc by means of a common strategy based on specialisation and comparative advantage but the economic subordination of Eastern Europe, (complementing its political and ideological subordination) and the imposition of a Soviet-style autarkic strategy of economic growth.

The Soviet Union was able to achieve its objectives because of the extremely limited political and economic autonomy of East European states. Within the constraints of Soviet domination, with mechanisms of economic coordination replaced by one single policy imposed by the Soviet Union and the establishment of structural mechanisms of control of political and economic affairs of satellite countries there were no methods available to East European countries to resist Soviet pressures.

CHAPTER TWO

1953-1984: INSTITUTIONAL AND ECONOMIC MECHANISMS OF CMEA INTEGRATION. THEIR DETERMINANTS AND FUNCTIONS IN CMEA COOPERATION.

This chapter examines CMEA institutional and economic mechanisms and their effectiveness in attaining the political and economic objectives of the organisation before Gorbachev's reforms. The chapter is divided into five sections. The first outlines briefly the main organizational characteristics of the socio-political order of CMEA states as the major systemic determinants of the institutions and instruments of foreign trade activities including intra-bloc cooperation. The discussion is limited to those aspects of the economic mechanisms that had a specific bearing on management of international economic relations within the CMEA. The second examines the principles of formation and the functions of specific instruments of cooperation. It identifies the main limitations of the CMEA mechanism arguing that they were caused by the passive functions of commodity-money instruments inherent in the premises of the socio-political order of CMEA states. The third section addresses the issues of the relative 'fairness' of CMEA mechanisms, that is the extent to which CMEA members might have derived any political and economic advantages from these principles of cooperation. The fourth discusses the organisational principles governing CMEA economic cooperation and the formal and informal structures involved in the CMEA decision-making process regarding the objectives, principles and methods and forms of economic cooperation. I will discuss the powers and functions of CMEA organs and their relationships with national planning agencies and other levels of management of national economies. This chapter aims to show basic mechanisms involved in economic integration and the 'internal logic' of their operation. In the next part of the thesis I will

relate them to broader institutional arrangements in order to explain the underlying mechanism which undermined the implementation of CMEA strategies.

The defining features of the socio-political order of CMEA states.

As discussed in chapter 1, the main consequence of consolidation of Soviet domination over East European countries was the imposition on these countries of the uniform Soviet-type system of economic planning and management. This original, Stalinist, highly centralised economic model functioned, in its main aspects, in all Soviet bloc countries until Gorbachev's reforms, although local conditions and different advancement of economic reforms led to a diversity of organisation and management forms and a different degree of centralisation of decision-making in individual economies.

The basic features of the Soviet-type economy were the public ownership of the means of production and the centrally planned management of the economy. The nature of basic relations of production, that is the public ownership of means of production, made certain features of the operation of a socialist economy an indispensable part of the system. As nationalisation liquidated economic interests and mechanisms, such as the profit incentive and capital market, it was necessary to substitute for the informational and regulatory functions of the market mechanism a reliance on political and administrative levers of control in the regulation of the economy. This in turn necessitated the formation of a new system of economic management, in particular centralization of at least some kinds of major economic decisions and coordination of economic activities by a central decision-making and planning body (Brus 1972, 13, 136).

In the Soviet bloc countries the domination of the political sphere over the national economy manifested itself in the exercise by the state organs of considerable control over all the phases of planning, production and distribution. The scope of

decision-making included not only the main macro-economic decisions, such as the determination of the major proportions in the economy (i.e. the share of investment and consumption in the national income, and the major economic variables: price levels and wage rates), but also the micro-economic decisions involving the setting of detailed production targets for individual sectors or enterprises such as the size and detailed structure of output, specific methods of production, the sources of supplies and direction of sales (Brus 1972, 116).

Although formally the state was the main centre of economic decision-making, its actual authority was qualified by the principle of the guiding role of the communist party which meant that the party effectively exercised control over domestic and foreign policy-making. The decision-making powers in practice belonged to the leadership of the party. This was a result of the hierarchical nature of internal party organisations, based on the principle of democratic centralism, which gave the party leaders unrestricted political powers.

A Soviet-type system was thus characterised by a reciprocal relationship between the highly centralised management of the economy and a centralised system of exercising power. A central role in maintaining this relationship was played by the state plan which was the main instrument through which the party-state apparatus exercised its exclusive rights to regulate economic activities and allocate productive factors.

The instruments of economic management in a centralised model.

In the system of directive centralized planning and management the broad directions of party policies were formulated in long-term plans for a 10-15 year period and in five-year plans which specified the growth rates of production for individual sectors of the economy, and which established the basis for investment programs. These plans did not contain instructions for enterprises and as such were not 'operational'. The detailed targets concerning the levels and structure of production, investment and

consumption were set out in physical terms in an annual plan which directly and indirectly allocated targets to all state-owned enterprises and specified the methods of their achievement (Brus 1972, 117-9).

The allocative decisions were taken by the state which elaborated the hierarchical structure of goals consistent with the priorities of economic strategy. Planned targets were determined by planning procedures relying on material balances in physical units. Material balances were based on the priority principle which considered certain industries as 'strategic' and favoured them in the allocation of resources. As a basis for taking strategic decisions served thus the economic calculus on the central level which was of a macro-economic nature i.e. the alternatives were considered from the point of view of the national economy as a whole and not from of particular sectors. It had also predominantly the features of the so-called 'direct calculus' i.e. a calculus which was expressed in physical magnitudes.

The state plan and arbitrary planning and allocation procedures ensured complete and direct subordination of lower economic units to the political center which issued direct administrative orders, expressed in terms of physical units, to ministries and enterprises. In the unreformed centrally planned economy their fulfilment was the major measure of effectiveness of the functioning of enterprises. Consequently their capacity to determine their own production levels and prices and to make decisions about the use of their assets was very limited (Soldaczuk et al. 1983, 364).

The functions of commodity-money relations.

Necessarily connected with the absence of a 'real' market and the regulation of the Soviet bloc economies primarily by means of administrative methods was the largely passive role of commodity-money instruments. In the economic system relying on directives, the monetary instruments such as profit, prices, credit and financing logically could not constitute the basis of choice, but could serve merely as accounting tools,

used for aggregation and monitor compliance with the central decisions (Soldaczuk et al. 1983, 363, 377).

In accordance with this logic of the centrally planned economy internal prices in CMEA countries were used primarily for aggregation in the process of formulation and implementation of plans and as an accounting instrument in settlements of enterprises with the state budget account. They were set at the central level and did not accurately reflect the real costs of production as well as real relative scarcities of inputs and outputs in the national economy. Similarly, monetary instruments fulfilled primarily an accounting function, necessary for the comparison of production costs and results. This comparison was not, however, a basis for decisions by individual enterprises concerning the levels and structure of production, since, as noted earlier, such decisions were taken at the central level and in the form of administrative directives were sent down for an enterprise to fulfil. The enterprise accounting was done not before but *after* receiving these instructions. Monetary instruments and individual enterprise accounting thus passively reflected the realisation of decisions of the central level and were used as a means of exercising operational supervision over the activities of enterprises to ensure that they operated according to plan instructions (Soldaczuk et al. 1983, 364).

The passive role of money was thus functional from the point of view of the central planning authorities, as it prevented an enterprise from responding to signals from outside the planning system. The lack of financial autonomy at the enterprise level and the lack of instruments of economic calculus had, however, negative consequences as these features resulted in the absence of economic mechanisms for enforcing effective management or providing incentives to make improvements in the methods of production as the financial results of enterprises operation did not have an impact on the evaluation of their effectiveness.

Economic reforms undertaken in Soviet bloc countries during the period examined did not fundamentally change this logic of operation of national economies. They were implemented according to a doctrinal Marxist-Leninist position, according to which a socialist economy should be centrally planned not only in a general sense, but in all its aspects; thus while economic instruments had to be temporarily tolerated they were, in principle, incompatible with central planning. The practical implications of this position for the functioning of Soviet bloc economies were apparent in the tendency to concentrate on analysis of the shortcomings of the system without questioning the fundamental principles of the socialist economy and socialist growth strategy.

As discussed in chapter 3, economic reforms undertaken in the mid-1960s to improve the effectiveness of economic planning and management were limited to the combination of the streamlining of the existing system of command planning with an increase of the operative and economic independence of enterprises (*Pravda* 6 May 1966, 4). The decentralisation of decision-making was supported by intensification of the role of economic incentives and an increased emphasis on economic accountability. The enterprises were given the right to determine many of the plan indices themselves and to dispose of a part of the profit (Miroshnichenko 1967, 3).

Following the invasion of Czechoslovakia in 1968 these elements of reforms which involved partial decentralisation and price reforms were however replaced by the stress on rationalisation of centralized economic management (Inozemtsev 1969, 4). At the 24th Congress of the CPSU in 1971 the Soviet Prime Minister Aleksei Kosygin declared that, 'The premise that directive planning is the leading and decisive factor and commodity-money relations can and must be used in the interests of strengthening the planned guidance of the national economy and developing the initiative of enterprises and associations on the basis of economic accountability'. He added, 'Commodity-money relations in our country have a new, inherently socialist content. We reject all

erroneous conceptions that substitute market regulation for the leading role of state centralized planning.' (*Pravda* 7 April 1971, 3).¹

The exception was the New Economic Mechanism (NEM) in Hungary which was introduced in 1968, and the attempts at economic reform in Poland since 1982. As a part of reform measures economic organisations obtained some rights to make decisions on investments. Their independence was increased also by a decrease in the number of central directives and the substitution of some physical targets by value indicators. As a result of these reforms, economic organisations in Hungary and Poland enjoyed much greater autonomy than in other bloc countries. The limits on an enterprise's autonomy were greatest in Romania, while in the Soviet Union, Bulgaria, East Germany and Czechoslovakia they could make certain decisions about their current but not investment operations.

However, even Hungarian and Polish reforms were limited to the 'administrative' decentralisation of the economy with the preservation of the fundamental role of central planning subordinated to political authorities. Reforms did not fundamentally alter the primary role of central planning by physical yardsticks, although some elements of the planning process underwent significant streamlining (Kaminski 1991, 73-6). Consequently, while the reforms of centrally managed economies in the Soviet bloc allowed enterprises a degree of independence in decisions on allocation of resources, this did not undermine in principle the passive role of money-commodity relations.

As the Polish experience with economic reform demonstrated, even far-reaching reform which introduced financial instruments, which made enterprises more sensitive to financial indicators, did not succeed in the objective of establishing a link between the economic performance and the financial situation of an enterprise in the absence of conditions essential for proper functioning of indirect controls. Instead the measures

¹ The Directives of the 24th CPSU Congress For The Five-Year Plan For The Development of the USSR National Economy in 1971-1975 - Report by Comrade A.N.Kosygin

introduced produced pressures towards increasing direct intervention by the state, although increasingly at lower levels of administration, and replacing administrative commands by financial parameters shaped not by the market, but by the central planning authorities (Kaminski 1991, 73-6).

The instruments of involvement of CMEA countries in the international division of labour and their functions.

These principles and mechanisms of political and economic management of centrally planned economies were the major factors determining the role assigned to economic foreign relations and the institutions and methods of conducting foreign trade in CMEA countries. Their uniformity necessarily led also to the uniformity of the main features of the organisation of foreign trade activities of CMEA members with diversity limited to the organisational forms and the rights of enterprises to engage in foreign trade transactions.

The central management of economies determined first of all the planned character of regulation of foreign ties. The plans of the development of foreign trade relations in CMEA countries constituted a part of the system of national economic planning.¹ The character of planning of foreign economic relations in centrally planned economies was determined primarily by their function in national economic growth. In the conditions of largely autonomous development, which characterised CMEA countries in the period examined, the foreign trade plan had a residual character with regard to the national economic plan. A set of preliminary export and import targets was developed only after establishing preliminary estimates for the annual economic plan. At that time, major importance was assigned to imports essential to meet the needs of the economy and the balance of the national economic plan. Exports were considered

¹The foreign trade planning included a number of forms, such as long-term, medium term and one-year plans regarding foreign economic exchanges, the coordination of plans and the framework of trade agreements with other centrally-planned countries.

not as end in themselves but primarily as the means of financing imports. The level of trade, as well as its commodity composition and geographic distribution were thus determined originally and primarily by import needs (Soldaczuk et al. 1983, 346). Since material balances were used as the primary tool to determine the level and commodity composition of the structure of trade, these decisions ignored relative production costs, domestic and external comparative advantages. Conversely, since macroeconomic decisions about accumulation and investments were taken not on a basis of economic scarcities, whether domestic or external, foreign economic ties did not actively influence the production, investment and consumption plans. A consequence of the passive role of foreign trade in the economic strategies of Soviet bloc countries was the autarkic character of a substantial part of their economies, i.e those enterprises which were set up only to produce import substitutes, but proved unable to compete with foreign organisations (Bozyk 1989, 4).¹

The systemic factors were also major determinants of the principles and procedures governing foreign trade activities and the behaviour of economic organisations in Soviet bloc economies. The principal feature of the organization of foreign economic activities in all CMEA countries was the state monopoly of foreign trade, which empowered the state to exercise exclusive control over the development of external economic ties. The monopoly was thus consistent with the public ownership of the means of production which rendered the state the main center of political and economic decision-making. It was also consistent with the overriding role of the state plan in regulating the participation of a country in the international division of labour, as it ensured the conduct of foreign economic ties in accordance with macro-economic priorities reflected in the provisions of the state plans (Soldaczuk et al. 1983, 344). The

¹Detailed central planning could also independently stimulate mechanism of the autonomous development of the national economy. These tendencies stemmed from a desire of the national planning authority to eliminate in domestic planning as far as possible the elements of instability and uncertainty which could disrupt the fulfilment of the state plan. External factors on which foreign trade plans primarily depended, represented such elements. This desire to protect the economy against undesirable external fluctuations led to attempts to limit as much as possible dependence on external resources and to import substitution (Soldaczuk et al. 1983, 362).

decisions concerning external economic relations were taken at the central level while the role of lower level economic organisations consisted in the implementation of central directives (Soldaczuk et al. 1983, 345).¹

In organisational terms the monopoly was implemented by granting the exclusive right to engage in foreign trade operations to the Ministry of Foreign Trade, which conducted all foreign trade activities chiefly through state trading organisations specialising in particular commodity groups. Until the reforms of the 1960s individuals, production associations and enterprises, were not allowed to deal directly with their potential buyers or sellers abroad. The restrictions on purchases by foreign importers, aimed at the protection of internal markets, were described in Western literature as 'commodity inconvertibility' (Holzman 1976, 42).

An integral part of the system of central planning was thus the hierarchical system of management of foreign relations and rigid administrative separation of domestic producers from foreign producers and consumers. By preventing enterprises from bypassing their own central authorities and establishing direct contacts with enterprises in another country, the monopoly of foreign trade served in the foreign trade sector the same role as passive money with regard to domestic transactions, namely it prevented an enterprise from responding to signals from outside the planning system. The monopoly thus supplemented the central planning mechanism in its function of securing the autonomy of economic policy and stability in domestic activity.

This separation between the domestic and foreign markets and control by the state of external economic relations was complemented by the separation of the domestic and international spheres of settlements through the state's foreign currency monopoly. The

¹As Polaczek (in Bozyk ed. 1974, 137) has pointed out, the broad powers of the State to use very effective administrative instruments to protect the internal market against imports can be traced back to the Soviet foreign trade system established during the first five-year plan in the 1930s which was originally designed to protect new industries from capitalist competition, eliminate competition between Soviet purchasing and sales agencies on foreign markets and to strengthen the bargaining position of the Soviet state with capitalist enterprises. It was subsequently installed without major changes in Eastern Europe.

need to separate these spheres was linked to the premise of the monetary system in centrally planned economies that domestic currencies could be legally used only for internal needs, and hence were not convertible. By means of the currency monopoly the state exercised its exclusive right to conduct all international settlements, make decisions on currency issues, and to allocate foreign currency earnings according to centrally-determined priorities.¹ The currency monopoly was designed to make possible the conduct of independent monetary-credit policy and to protect domestic economies from the influx of foreign capital. It also permitted control of the levels and structure of domestic prices, which was important in the conditions of an autonomous system of domestic prices independent of world prices.

The management of foreign economic relations in CMEA countries was also affected by the principles of formation and functions of domestic prices, exchange rates and other financial instruments. As mentioned earlier, domestic prices in individual CMEA countries were administratively set at the central level, did not accurately reflect production costs and were independent of world market prices. Similarly, as a result of inconvertibility of domestic currencies, the official exchange rates were set by the state at a constant level which did not reflect relative values of currencies. Their main function was to serve as a unit of account in domestic settlements between foreign trade enterprises and national banks servicing foreign trade (Soldaczuk 1983, 364). They were not meant however to be used for comparing domestic prices of CMEA countries, and domestic and intra-CMEA prices and world prices. They thus could not be used by a domestic producer to calculate the actual production costs in case of imports, or the profitability of exports (Soldaczuk et al. 1983, 120, 398).

¹Foreign trade enterprises and other eligible organisations engaged in foreign trade operations had to direct all their foreign earnings to the state bank, while enterprises conducting import transactions envisaged in the foreign trade plan had to request the required allocation of foreign exchange (Soldaczuk et al. 1983, 118).

The negative consequence of administratively set prices and exchange rates was that centrally planned economies, both at a national and enterprise level, did not have instruments for the calculation of the effectiveness of foreign trade transactions, specialisation and cooperation in production or investments and thus for decisions on allocation of resources and the most effective structure of exports and imports.

Furthermore, the financial results of foreign trade transactions had no economic significance for enterprises as the differences between foreign prices and the corresponding domestic prices calculated at artificial exchange rates were offset through a budget account. As a result, there was no mechanism providing economic incentives for enterprises to produce for export, to raise productivity and ensure high quality and the competitiveness of products in foreign markets. The ultimate result of this separation of producers from foreign markets was the development of the national economy in isolation from the requirements on the world markets. Even within the CMEA the economies of the member states were separated.

Summary

The instruments of economic management and institutions of foreign trade in CMEA countries were thus compatible with the logic of a centrally planned economy, they were however not suitable for active participation in the division of labour both internationally and within CMEA.

In the period examined, CMEA countries made several attempts at the improvement of the system of management of foreign trade relations. Foreign trade reforms were undertaken in some East European countries, but not in the Soviet Union, in the mid-1960s as a part of general economic reforms. In the 1970s, they took place in conditions of intense exposure of CMEA economies to developments in the world economy. This was due firstly to rapid rise in world oil prices in 1973, which from the mid-1970s began to affect also intra-CMEA exchanges. Secondly, at that time several

countries, particularly Poland, initiated an export-led growth strategy which required a new approach to the organisation of foreign trade.

Their broad objectives was to make foreign trade play a more active role in national economic development, to increase productivity through exports of manufactured products and to make economies more responsive to the requirements of the world economy and the CMEA market. The main general characteristic of these efforts was a modification of the forms of the monopoly of foreign trade, such as giving rights to conduct foreign trade activities to enterprises without the intermediation of foreign trade organisations, the subordination of some foreign trade organisations to branch ministries, and the formation of joint ventures and joint cooperation agreements. The reforms also entailed a variety of measures aimed at providing economic incentives to produce for exports. In Poland, special exchange rates were introduced in an attempt to link domestic and foreign trade prices, and thus to ensure that the results of external transactions would influence the overall financial results of producers (Bakos 1987, 21-2).

The reforms did not, however, violate the principle of state control over foreign trade activities and the subordination of foreign trade to the central plan. As a result these measures had fallen short of creating an institutional framework conducive to adjustment to international technological requirements. Their limited character was due to the absence of essential reforms of domestic economic mechanisms involving domestic prices and other monetary instruments (Bogomolov ed. 1987, 418-20).

Szortyka (1989, 25) has argued that the centralised management of the economy stimulates the autonomous reproduction of the principles of centralised management of foreign economic ties, notwithstanding attempts and measures aimed at decentralisation. This occurs due to economic processes arising from the shortages which, as Kornai (1980) has convincingly demonstrated, this type of economic

management has to generate regardless of high or low economic growth. The crucial feature of foreign economic relations of an economy characterised by shortages is a spontaneous reproduction of import 'hunger'. The imports are desirable both from the point of view of enterprises and central authorities which see them as a means of eliminating the imbalances that are constantly arising in the economy. Yet, in the conditions of an economy of shortage import needs can not be fully satisfied by exports due to mechanisms obstructing the interest of enterprises in export. The lack of interest of enterprises in export due to isolation from external markets is further strengthened by a domestic 'seller's' market characterised by shortages. In conditions of demand exceeding supply it is easier for producers to sell all their products on the domestic market rather than to meet the special requirements of foreign buyers in terms of quality etc. The majority of producers export only a few per cent of their output. In these conditions the state is, on the one hand, forced to the centralised control of imports and, on the other, state intervention by means of preferential instruments is also necessary to encourage export. This necessity of centralised regulation of foreign economic ties logically requires a hierarchical system of management of foreign relations.

The CMEA mechanisms of cooperation. The postulated functioning of CMEA mechanism. The main rules and procedures governing joint planning.

The principles governing the economic mechanism of its members described in a preceding section were the primary determinants of CMEA mechanisms of cooperation. Consequently, CMEA cooperation had a planned character and relied primarily on direct administrative methods for the regulation of economic relations between its members. CMEA mechanisms also entailed indirect coordination of economic decisions by means of the pricing system, monetary and financial instruments, credit system, international banks and joint economic organisations. The functions of commodity-money instruments reflected the passive role of indirect instruments of management in

the domestic economies; they were subordinated to planning instruments and did not influence decisions regarding the levels and structure of production and exchanges.

Hypothetically, the CMEA, as an organization for economic cooperation of centrally planned economies, had a choice between two economic mechanisms to elaborate a joint economic policy. One option was to effect the process of coordination of the national economic policies of its members through a single central plan for the whole region, drawn up by a supranational authority, or by national planning agencies working together. Such a supranational plan would allocate specific investment projects and production goals to individual member states from the point of view of priorities desirable from the perspective of the entire CMEA rather than individual national economies.

As discussed in chapter 3, this concept of CMEA as a supranational body with powers to allocate resources and issue directives, raised by Khrushchev in 1962, was successfully opposed by East European members of CMEA and did not materialise. The preservation of formal sovereign rights of individual member countries in the process of economic cooperation meant that national governments remained the sole owners of the means of production and exercised, at least formally, exclusive rights to decide their economic priorities.

As a consequence, the decision-making process within the CMEA had to be effected by joint planning activities conducted on the basis of the voluntary agreement of all participating countries. This meant that, at least formally, all the joint plans and programs of CMEA members could not be independent of individual national economic plans but had to result from the targets of the national economic development plans independently worked out by each country (Bogomolov ed. 1987, 364).

In this mechanism of CMEA cooperation the main decision-making functions were fulfilled by the individual states which decided major economic issues on behalf

of enterprises, directly participating in cooperation. The central role in the organisation of the main aspects of cooperation was exercised by national central planning bodies which played a principal role in the coordination of plans, determination of specialisation and cooperation directions, negotiating the terms of inter-state agreements and were responsible for the coordination of activities with CMEA organs. Their role in joint planning activities increased following the adoption of the Comprehensive Program (CP) which assigned to them responsibility for not only direct coordination of national economic plans but also for joint planning and drawing up of long-term economic forecasts (Rodionov 1971, 2). The CP also provided for a greater involvement of the chairmen of the CMEA member countries' planning agencies in cooperation on the newly established Committee for Cooperation in Planning.

Central planning organs were assisted by national ministries and other central bodies and economic organisations of CMEA members which exercised substantial powers with regard to objectives and methods of economic cooperation in their respective fields. They elaborated the programs of cooperation in their sectors on the basis of strategies of cooperation outlined in programmatic statements and decided bilaterally issues related to the development of individual sectors, including specialization and cooperation, joint investment projects and exchanges of some goods, and concluded agreements with their counterparts in other countries (Nosiadek 1986, 25).

The model of cooperation thus relied primarily on cooperation between states and not on direct links between production and trade enterprises. The decisions regarding cooperation were taken primarily at inter-state level with the national central bodies, in particular planning agencies, playing the decisive role in determining the content of CMEA cooperation. Production and trade enterprises which were ultimately responsible for the achievement of CMEA aims played a passive role in this process. Direct links between enterprises consisted in the implementation of decisions in accordance with the

terms of agreements previously decided at the central level during the coordination of plans. This was consistent with the domestic mechanism which excluded production associations and enterprises from direct participation in foreign-economic activity.

The coordination of economic policies of CMEA countries had a directive character and dealt with physical quantities. The principal form of joint planning was the coordination of national five-year economic plans. It focused on the key sectors of the economy such as machine building, ferrous and nonferrous metallurgy, coal, petroleum, gas and chemical industries, transportation services, and joint production projects.

The decision to adopt the coordination of plans as the basis of the CMEA economic mechanism was taken by the 4th Session in 1954. The rationale was that the coordination would go beyond coordination of mutual deliveries resulting from national plans and actively influence the sphere of material production. The assumption underlying this belief was that the main production and investment intentions could be discussed prior to their approval by individual governments in national plans (Bogomolov ed. 1987, 393). It was hoped that in the course of consultations individual countries would make production and investment decisions, and determine the basic directions of specialisation with consequent adjustments in the national economic plans (Ciamaga 1965, 55). The conclusion of long-term trade agreements determining the proportions and structure of mutual trade would follow in the wake of coordination of production and investment intentions (Deniszczuk in Bozyk ed. 1974, 84-7).

As discussed in chapter 3, the 4th Council Session in 1954 also considered an idea of coordination of long-term plans as the basis for the development of joint policy. However this concept was abandoned for four years as a result of a Soviet attempt to impose its own economic preferences on East European countries directly. The idea resurfaced again in 1958 at the 8th Session, which recommended that the coordination of the main targets of the five-year plans should be supplemented by drawing up and

co-ordinating long-term investment plans for a period of ten to fifteen years (Ciamaga 1965, 217). Since then the combination of coordination of long and short-term plan remained a postulated chief CMEA mechanism for the elaboration of joint economic policy. The 8th Session also recommended that the coordination should be conducted not only on a bilateral, but also on a multilateral basis (Ciamaga 1965, 212).

Instruments of regulation of CMEA exchanges and economic cooperation.

The basic planning instruments of the regulation of intra-CMEA economic ties were the inter-state long-term economic agreements, usually for a five-year period, concluded by central national planning bodies in the course of coordinating five-year plans. The agreements formed economic ties in a direct or indirect way. The agreements which formed the ties directly were trade and services agreements, production agreements, particularly specialisation and cooperation in production, and scientific and technical cooperation agreements. Agreements which formed the ties indirectly included credit and settlement agreements (Soldaczuk et al. 1983, 395). The provisions of long-term economic agreements were specified every year in the annual protocols also at the central level. The agreements contained commitments of individual states on mutual deliveries of goods and services. It was impossible to obtain goods and services outside their framework. The role of foreign trade organisations consisted in the implementation of agreed planned targets for exports and imports specified by the agreements.

The form and scope of the agreements depended on the degree of centralisation and the functioning of the state monopoly of foreign trade. In centrally planned economies agreements specified in detail intended levels and composition of exports and imports by main types of goods and other terms of mutual deliveries. The exchanges were balanced bilaterally between individual pairs of countries in total terms, in specific main commodity groups and even some key goods (Soldaczuk et al. 1983, 395).

The rigid character of agreements and bilateral balancing in main commodity groups complemented the centralized system of planning and management relying on material balances. Strictly centralised trade allowed the possibility of state control of levels of exports and imports to ensure the balance of a domestic plan and balance of payments. The system of planned deliveries of specified goods also reduced the uncertainty inherent in exchanges with foreign markets.

Bilaterally balanced trade agreements were also expedient because they helped to minimise the effect of the shortages which characterised the operation of CMEA member economies. The rigid, bilateral character of agreements made possible tying exports of 'hard', that is desirable, goods for which demand within CMEA exceeded supply, to the imports of other commodities in short supply. Bilateral agreements also allowed tying the deliveries of 'hard' goods to sales of less desirable 'soft' goods (Orlowski 1971, 12).

A distinction between 'hard' and 'soft' goods originated from detailed direct central planning and the resulting shortages in domestic economies which could not be satisfied by imports. Commodities regarded as 'hard' goods within CMEA included raw materials and fuels of key importance for economic development which were relatively underpriced on CMEA markets and could be sold on world markets for hard currency, and machinery and equipment comparable with world standards. The majority of countries, especially those who were net importers of raw materials and fuels, considered consumer goods 'soft', as they were overpriced and difficult to sell on world markets (Szortyka 1989, 28).

As mentioned in chapter 1, in the initial years of CMEA cooperation it was assumed that inter-state trade agreements could become the means of indirect coordination of national production and investment plans of CMEA members and thus a basic form of coordination of economic policies of individual countries. This assumption was based

on a belief that it was possible to conduct trade negotiations in the course of drawing up of national plans, and that their provisions could influence the production and investment decisions in individual countries. The 3rd Council Session, held in November 1950, recommended that those member countries which had not yet concluded such agreements should do so by 1951. The 4th Session, in 1954, the first to be held after Stalin's death, acknowledged that the increase in intra-bloc foreign trade exchanges which took place during that period was not a result of the coordination of national economic plans of member countries. Their ineffectiveness as an instrument of initiating a division of labour and specialisation of production was a consequence of planning procedures based on material balances, according to which the determination of the investment and production plans by individual governments took place prior to decisions on exports and imports. This meant that trade negotiations could only indirectly and in a limited way influence plan targets which had already been determined.

The determinants of the principles of formation of CMEA prices, exchange rates, interest rates and the system of settlements and credits. Functions of commodity-money instruments.

As discussed earlier each CMEA country had an autonomous system of domestic prices, which made impossible the elaboration of economically rational principles of formation of CMEA prices on the basis of production costs, a purely internal monetary system and arbitrary official rates of exchange. As a consequence they could not use their internal commodity-money instruments for international settlements and comparison of costs. This led to the need to develop an artificial CMEA pricing and monetary system independent of internal systems.

Initially, until 1950, intra-CMEA trade was valued at current world market prices. However, during the Korean War, CMEA countries began to rely on an artificial pricing

system of so called 'stop' prices based on 'cleansed' and average world market prices that is prices on the main capitalist markets of an earlier period (Soldaczuk et al. 1983, 396-7). For example in 1951-57 in their intra-bloc exchanges CMEA countries used prices at the 1949-50 level.¹ The basic principle of the 'stop' pricing system was that intra-CMEA prices should reflect changes in the conditions of world supply and demand but be free from the influence of short-term and cyclical, speculative, monopolistic and other factors of non-productive nature. The 9th CMEA Session in 1957 also prescribed uniform rules for price determination in bilateral agreements, i.e. a single price was to prevail throughout the bloc for a single commodity (Bogomolov ed. 1987, 432). In practice, however, prices were determined on a bilateral basis during negotiations of a trade agreement which led to different prices for the same products.

These rules of price determination remained fundamentally unchanged until the 1980s. The modification in 1975 of 'stop' prices by the introduction of the 'sliding' world average price system was limited to an annual change of the basis for CMEA prices. Prices were now changed annually on the basis of the average of the preceding five year's world market prices.² The changes occurred at Soviet insistence one year ahead of schedule. The main objective of this modification was to narrow significant and increasing differences between CMEA and world prices inherent in 'stop' prices, unchanged for five years and thus to maximise the immediate increase of revenue for Soviet energy deliveries.

The formation of the CMEA contractual prices on the basis of world prices was not an obstacle to the fulfilment by prices of their limited accounting functions consistent

¹This move away from world prices was officially explained as a result of a rapid increase in world prices during the Korean war and a desire to protect domestic economies against cyclical and speculative fluctuations of world prices. One of the main methods of 'cleansing' of world prices, or their objectivisation was a formula of 'averaging' world prices over a preceding five-year period and maintaining fixed or stable contractual prices for a predetermined period. This meant that in 1958 CMEA adopted world prices for 1957-58 as binding until 1965. Actual contractual prices for 1966-70 were based on average world prices for 1960-1964. Prices for 1971-1975 were linked to average world prices for 1965-1969.

² Contractual prices for 1979 were based on average world market prices for 1974-1978, and prices for 1980 were linked to average world prices for 1975-1979.

with the bilateral, detailed agreements. The CMEA pricing system was also consistent with the requirements of the planned regulation of economic processes because by insulating CMEA countries from fluctuations on international currency markets it ensured a certain stability of prices (*Zycie Gospodarcze* 29 June 1975, 11).

CMEA monetary-financial relations.

Similarly, CMEA countries used in all intra-CMEA settlements an artificial currency - until 1964 the so-called clearing rouble and after that the transferable rouble (TR). The decision to create an artificial currency stemmed from a premise inherent in the principle of central planning that domestic currencies could be used only for internal needs. The transferable rouble was to serve as a technical tool of settlements as an accounting measure of value. These functions were consistent with the regulation of economic relations by rigidly balanced bilateral trade agreements specifying volume and levels of exchanges in the forthcoming period where settlements were on a clearing basis and there was no room for the active function of currency.

In the examined period, in accordance with the Marxist ideological precepts, only the markets for commodities and services were regarded as legitimate areas of cooperation. Credit relations among CMEA members were conducted primarily at the central level and were regulated by means of inter-government agreements, which specified the project for which credit was granted, terms of repayment and interest rates. Credits were granted in a form of transfers of the transferable roubles or commodities, mostly in the latter form. Due to the ideological objection to recognizing interest as a return on capital, interest rates were very low at about 2.5 per cent with regard to foreign trade settlements and 2-3 per cent on loans.

The actual functioning of CMEA mechanisms.

In practice, plan coordination was not an instrument of coordination of national economic policies. Instead it was principally a process of exchange of information on quantitative quotas of imports and exports which were then adopted as a basis for concluding inter-state bilateral trade agreements as well as annual trade protocols and other economic agreements. Negotiations took place not before, as intended, but after national plans were completed and the pattern of investment decided (Miroshnichenko 1967, 3). The reason was that the priority of national governments was to achieve a balanced national economic plan, and the coordination of plans was subordinated to this objective.

Coordination was used primarily to secure deliveries of raw materials and fuels and high quality types of machinery and equipment, so called 'hard' goods, essential for the operation of the metallurgical industry and machine-building industries. Priority was placed on preventing bottlenecks in the economic development of the CMEA members and at eliminating shortages that had developed in the course of production (Alekseyev, 1971, 3).

The coordination of economic policies was limited to the administrative determination of those economic sectors where the specialization and cooperation of production should take place. Most specialisation agreements consisted of an administrative allocation of production by type or size. In terms of economic instruments this was the result of the principles of formation of CMEA pricing system. As discussed earlier, domestic prices in individual countries could not be compared as each country had its own price system. That meant that they could not serve as an instrument of comparison of prices and costs of production in different countries and determining comparative advantages between domestic production and alternative imports. CMEA prices also did not reflect actual production costs in individual

countries or relative scarcities within CMEA (Soldaczuk et al. 1983, 396-7; Bogomolov ed. 1987, 432). Consequently, CMEA members did not have objective criteria to make decisions on investments, specialisation and cooperation, exports and imports and to develop division of labour.

Another problem for the process of cooperation related to the principles of formation of intra-CMEA prices stemmed from difficulties in finding an accurate pricing basis. While it was relatively simple to establish world prices for raw materials and other primary products, because these are mostly standardized commodities traded on the world markets at published prices, there were problems with identifying the most appropriate product for comparison in case of machinery and equipment (Bogomolov ed. 1987, 434). Furthermore as there was a range of world market prices for a given type of products, the comparison by referring to different types of product led to significant divergences between intra-CMEA prices and world market prices. Yet another reason was that for most manufactured products in trade between countries with non-convertible currencies, prices typically tend to gravitate toward the upper end of the world market price range because due to a shortage of convertible currencies there is a preference to import products of comparable quality from other soft-currency countries, which allows the seller to charge the highest possible price (Marer in Terry ed. 1984, 167).

The result of these divergences was relative underpricing of raw materials and relative overpricing of low quality machinery and equipment. While there has been a general agreement as to the existence of these distortions the extent of these is a matter of controversy. Smith (1983, 165) estimated that prices for manufactured commodities were 25.9 per cent higher than world market prices, while raw materials only 15.4 per cent. Auch (1972) claimed that that intra-CMEA prices for machinery exceeded prices of identical goods on Western markets by 10-20 per cent. However, Poznanski (1988, 293), referring to Hungarian studies conducted in the mid-1980s, noted that some

reduction or even elimination of such excess prices had taken place, at least in the area of traditional machinery.

Whatever the actual distortion, such prices did not reflect the actual conditions of supply and demand on the CMEA market, which was characterised, on the one hand, by a persistent deficit of supply in some natural resources, minerals, foodstuffs and other primary commodities and, on the other, by an excess supply of low quality machinery and equipment. As a consequence, in order to avoid unfair terms of trade and subsidizing other countries the tendency was to balance goods not only globally, but in the specific commodity groups, in particular in fuel and raw materials. This 'naturalization' of exchanges thus strengthened the practice of 'tying' exports and imports of 'hard' goods or exports of 'hard' goods to sales of 'soft' goods, discussed earlier in the chapter. This practice was prevalent in particular in trade among East European countries (Marer in Terry 1984, 168, 172-3)¹ as none of them was prepared to run a surplus in these crucial categories. As discussed in the next section, since the early 1980s this approach began also to characterise Soviet trade.

Another factor which obstructed CMEA cooperation which was related to the mechanism of intra-CMEA price determination was their separation from world prices and costs of production. This problem was exacerbated by the artificial exchange rates of the transferable rouble in relation to convertible currencies. This had a double effect. In the short term, breaking any connection between world prices and CMEA prices frequently led to the redirection of trade of some types of goods which could be sold for convertible currencies away from CMEA market. In the longer term, as CMEA was not self-sufficient economically, this separation delayed adaptation of CMEA economies to the changing requirements of global markets.

¹This is evident from the commodity composition of Soviet trade with six East European states combined. See: Table 6.1 on pages 172-3 and the corresponding trade balance by main commodity categories in Table 6.2 on a page 173.

Bilaterally balanced trade agreements were also not effective instruments in regulating intra-CMEA cooperation, to the contrary, they had a negative impact on the level of trade, the possibility of multilateral cooperation and commodity structure of exchanges. The impossibility of the multilateral settlement of accounts in transferable rubles was the result of bilateral clearing exacerbated by the varying purchasing power of the TR in individual clearing agreements. Formally the TR had equal value in all bilateral settlements. However, in reality its value depended on the commodity composition of exchanges and the level of prices in a specific bilateral agreement. This was related to the fact that despite the agreed principle of a single price for a particular product, in the conditions of rigid bilateral trade agreements, negotiations led to significant differences in prices for the same product. As a result, the system of settlements was segmented into 45 pairs of bilateral clearings with different price bases and different exchange rates for the TR, differences in its value ranging from 20 to 30 per cent. As a result, the actual value of each bilateral clearing balance was different and the TR was practically inconvertible (Sergeyev 1990, 40).

The inconvertibility of the TR led above all to the lowering of the level of mutual exchanges to the export capacity of the weaker partner. The reason was that additional exports in excess of agreed levels or a positive balance would lead to a surplus of transferable roubles, which under those conditions, would mean granting involuntary transaction credits to the purchasing side which could not be spent. The need to balance trade bilaterally was thus substantially reducing the level of intra-CMEA trade and ultimately the level of production (Kisiel in Bozyk ed. 1974, 232). This kind of barter also weakened interest in increasing exports and improvement in the quality of goods.

The first attempt at solving the problems of inconvertibility of currencies and bilateralism was the introduction in 1957 of multilateral clearing settlements between CMEA members by means of a so-called clearing rouble. This initiative was

however limited to exchange of surplus goods which had not been included in regular trade agreements, and quickly proved unworkable.

Another unsuccessful initiative was the introduction of a multilateral settlement system through the International Bank for Economic Cooperation (IBEC) set up in 1964. The Bank was responsible for conducting all intra-CMEA settlements, providing short-term bank loans to accommodate temporary bilateral imbalances, and helping to alleviate structural balance-of-payments problems. The bank also managed special funds for financing joint investment ventures expected to play a crucial role in advancing the international socialist division of labor (Kisiel in Bozyk ed. 1984, 238-39). The multilateral settlements were to be achieved by newly-created transferable roubles, so called, because in theory a surplus of transferable roubles in trade with one CMEA member could be used to pay off a deficit with another (Ciamaga 1965, 91). However, a declaration that a transferable rouble existed did not make it transferable, or for that matter, convertible. The introduction of the TR created the organisational but not the necessary economic conditions for multilateral trade and payments. The objective conditions which resulted in the lack of multilateral settlements, that is the regulation of CMEA by means of rigid bilateral agreements with varying prices for the same products, and as the TR could not be spent freely on unplanned imports from the other Soviet bloc nations no country was prepared to run a surplus (Bogomolov 1987, 450). The TR was thus only formally a means of multilateral settlements; in practice, trade remained as rigidly balanced as before, and the TR remained inconvertible.

Bilateralism also distorted the pattern of trade and specialization by obstructing the formation of an effective structure of mutual exchanges. Under rigid bilateralism, countries do not necessarily import at the lowest possible cost, thereby encouraging specialization according to comparative advantage, but often are forced to buy from less efficient producers in order to balance accounts bilaterally. In addition, the consequence of rigid bilateralism was the assigning of priority to imports of equipment and raw

materials, at the expense of consumption goods. This led to a general trend of import substitution and ultimately to the slow development of intra-bloc specialisation in consumer sector goods.

The CMEA credit system was also counterproductive in the implementation of CMEA cooperation. With regard to foreign trade settlements very low interest rates at about 2.5 per cent annually could hardly represent a tangible penalty in case of failure of the planned fulfilment of deliveries agreed in annual agreements and thus fulfilment of settlement obligations (Kisiel in Bozyk ed. 1974, 233). The failure to keep financial commitments led during the 1970s to the conduct of a growing share of intra-bloc trade at current world market prices and paid for in convertible currency. These transactions involved also 'hard' goods exported to CMEA partners outside the framework of the five-year trade agreements.

With regard to investment flows, the very low rate on loans was one of the factors discouraging investment in each other's economies since higher rates of return could be obtained by investing domestically. Another obstacle in the transfer of capital was the ban until the late 1980s, on foreign organisations or governments owning the means of production in a Soviet bloc country (Zwass 1989, 57-71). In practice the most important form of credit were loans for joint investment projects and to alleviate balance-of payment problems.

Conclusion

This section demonstrated that CMEA mechanisms had many limitations which seriously impaired their effectiveness as an instrument for multilateral cooperation, coordination of investments and development of specialisation and cooperation in the production sphere. Factors obstructing an increase in economic links included bilateral forms of cooperation which relied on allocation of products in physical units by administrative methods, difficulties in determining the effectiveness of foreign

economic ties, investments and industrial cooperation, low mobility of factors of production, inconvertibility of the TR, its artificial exchange rates in relation to convertible currencies and separation of CMEA market from world prices and costs of production. The lack of conditions for multilateral cooperation and problems with determining the effectiveness of cooperative projects created barriers for the implementation of the regional division of labour based on the rational allocation of resources, thus hindering the process of mutual accommodation of CMEA economies.

Ultimately, the sources of inherent ineffectiveness in the system lay in the domestic mechanisms of CMEA centrally planned economies whether traditional or partially reformed. The individual economies were structurally incapable of genuine coordination, let alone integration. As a consequence, the introduction of conditions necessary for integration depended on radical internal reforms including a reform of the pricing system, the introduction of realistic exchange rates allowing the comparison of production costs in individual countries and the introduction of convertibility of currencies.

Within the constraints of the Soviet bloc such reforms were impossible. The immediate reasons were economic in nature. The introduction of the conditions which were essential for integration would require the introduction of market instruments of regulation of economic processes, and thus fundamental transformation, if not abolition of the existing systems of management of economies relying on directive planning and rigid system of allocation of production. For example, full commodity convertibility of national currencies would mean that an enterprise in one country could by-pass both its own central authorities and the central authorities in other CMEA countries. Consequently, the central planning authorities would no longer retain control over the allocation of resources within their respective economies. Full commodity convertibility was therefore incompatible with central planning by direct controls. Ultimately, however, the reasons for the maintenance of this system were political. The CMEA

mechanism had to conform to the Soviet system of management and in the period under discussion the Soviet Union was not prepared to make changes endangering political control over the national economy.

The nature of Soviet economic relations with Eastern Europe. The political functions of CMEA instruments.

In direct relation to the principles of operation of CMEA mechanism were the issues of its relative 'fairness', that is the extent to which CMEA members derived any advantages from these rules of cooperation. The issue of economic 'fairness' defined in the literature in terms of 'exploitation or subsidization' was directly linked to the CMEA pricing system which, as mentioned earlier, led to the relative overpricing of manufactures and relative underpricing of raw materials in relation to world market prices. Furthermore, the subsidies were caused by delays in adjustment of CMEA prices to world levels, as, for example, in the period following the rapid price rises in the mid-1970s. This resulted in a perception among the CMEA members that they were subsidising others through distorted prices. The issue of political benefits concerned the question whether the CMEA mechanisms were used by the Soviet Union as an instrument of political pressure on East European policies.

The discussion on the subject of the relative 'fairness' of the CMEA pricing mechanism and its policy implications has involved numerous estimates and interpretations by Western political scientists and economists. It has been generally accepted that the Soviet Union was a source of net 'implicit subsidies' to Eastern Europe during 1972-84. There has been, however, a difference of opinion about the magnitude of subsidies as well as interpretation of their functions in intra-bloc relations.

The first well publicised attempt to quantify the transfers of wealth to Eastern Europe was made by Marrese and Vanous (1983) who demonstrated that the implicit

trade subsidy during 1972-84 amounted to approximately 114 billion dollars.¹ Their study has argued that the subsidy comprised two main components. One was related to the fact that since 1973-74 world prices of energy and many raw materials rose sharply and CMEA prices lagged behind them. As a consequence, the Soviet Union as a net exporter of energy and raw materials obtained lower prices than current world prices. This difference represented an implicit subsidy to Eastern Europe. Another element stemmed from the overpricing of machinery in intra-CMEA trade. They claimed that the Soviet Union as a net importer of East European machinery was continuously paying more for products of lower quality than those offered by Western exporters on the world markets. Marrese and Vanous have also argued that subsidies were implicit payments in return for non-economic services, such as support of Soviet foreign policy initiatives or contribution to the maintenance of Soviet military bases and that the Soviet Union rewarded its allies proportionately to their contribution to Soviet objectives.

In response to their study, independent calculations were provided by, among others, Poznanski (1988, 1993), Marer (1984), Dietz (1986) and Crane (1986). These alternative estimates indicated that the subsidies were more likely in the range of 14-37 billion dollars. According to Poznanski (1988) the Soviet subsidy was in the range of 29-37 billion dollars, which was one third of the figure produced by Marrese and Vanous for 1972-84. He has also argued that in certain years it was Eastern Europe which subsidised the Soviet Union. Furthermore, while he has acknowledged that intra-CMEA prices for machinery possibly exceeded the world market prices of identical goods, and Eastern Europe therefore benefitted from intra-CMEA sales, he has argued that this did not mean that the Soviet Union was losing to Eastern Europe through these imports. This was because the Soviet Union, to purchase products of the same quality from the West would have to pay prices considerably above the world market level. The

¹During the 1970s Soviet subsidy amounted to 100 billion US dollars and during 1981-84 to additional 14 billion US dollars.

difference was due to the well documented surcharge on Western sales to the East possibly related to factors such as the weak negotiating position of Soviet bloc buyers, the less favourable payment terms offered by the Soviet bloc, the costs of buy-back deals Western firms had customarily to accept, and the cost of conducting negotiations (Poznanski 1988, 291-7).

In his second study Poznanski (1993) has provided evidence that not only was subsidisation in Soviet-East European trade within the CMEA temporary, but that, overall, transfers were rather negligible. He has argued that Soviet subsidies to Eastern Europe were basically related to a slow adjustment of CMEA oil and gas prices to the two 'energy shocks' of the 1970s, but by the end of the 1980s the Soviet Union had been fully compensated by Eastern Europe, a result that the CMEA pricing formula was expected to ensure.¹ In this study Poznanski has used a modified framework for the quantification of trade-related subsidy transfers which included an additional item: East European imports of Soviet machinery which were relatively inferior in quality.² Consequently, his study has revealed that Eastern Europe had continuously subsidised the Soviet Union through these imports. His overall conclusion is that the trade did not involve enormous one-sided subsidisation through its pricing mechanism. In comparison with the Marrese and Vanous estimate of 114 billion dollars he has calculated 14 billion dollars. This, according to Poznanski (1993, 929), 'was a rather minor sum both in terms of any alleged financial burden upon the Soviet Union and in terms of any possible gains derived by the individual economies of Eastern Europe'. He has also claimed that 'considering post-1984 trends in CMEA pricing - specifically the tendency of Soviet oil and gas export prices to move above world market prices - these

¹Intra-CMEA oil and energy prices based on average world prices were indeed below world levels in the 1970s. However, in the 1980s due to an increase of the average price of Soviet oil they exceeded world levels. If 1979=100 then the price of oil imported from the Soviet Union increased by 249.2 per cent by the end of 1985. During that time the price of oil on world markets had increased by only 150 per cent.

²Poznanski has assumed (1993, 928) that on average Soviet prices for various types of machine tools exported to West Germany were about 25 per cent below those paid to Eastern Europe for similar models. This discrepancy would reflect Soviet 'windfall' gains when exporting machinery to Eastern Europe.

moderate “implicit subsidies” have been almost entirely offset by East European subsidies before the end of the decade’.¹

Many authors have also questioned the interpretation of Marrese and Vanous that subsidies represented a deliberate tool to reward East European countries for political and military ‘services’. Holzman (1987, 188-99) and Poznanski (1993) have provided estimates which suggested that existing data is inconsistent with this interpretation. They have demonstrated that the amount of ‘alleged’ subsidies, despite appearances of favouring more politically compliant nations, had more to do with the levels and structures of exchanges than with a deliberate policy designed to favour or punish particular countries. Thus the most likely explanation was that the transfers of wealth were an integral part of the CMEA mechanism and should not be perceived in terms of a deliberate policy of ‘reward’ or punishment for individual countries.

These findings have been also confirmed by Stone (1996, 72-87) whose book is based on a premise of the existence of a substantial Soviet subsidy which, moreover, allegedly spiralled out of control. On the basis of an analysis of Soviet-East European trade statistics and interviews with highly placed East European trade officials he has argued that there was no evidence that the Soviet Union used its bargaining position to exert pressure on the conduct of their domestic politics, neither in ordinary circumstances nor during crisis situations. To support his argument, he has demonstrated that there was no variation over time in the Soviet export levels of main raw materials and energy, and thus of Soviet trade subsidy, which could be related to political or economic concessions or sanctions. In fact, he has argued, exports were set in long-term agreements and exports of most key commodities were stable in quantitative terms within each five-year plan. Similarly, the ratios of Soviet imports and

¹In 1980-85 the terms of trade of European CMEA members with the Soviet Union had fallen by more than one third.

exports to CMEA countries in broad categories of goods remained stable. The trade was thus determined by the outcome of negotiations not by political considerations.

To illustrate his point further, he has analysed three 'crisis' cases in Soviet-East European relations : Czechoslovakia in 1968-72, Hungary in 1968-80 and Poland in 1980-82. Accordingly, his analysis has shown that Soviet-Czechoslovak economic relations were not affected by the Prague spring in 1968. To be precise, the Soviet Union apparently attached political conditions to a proposed 400 billion dollars hard-currency loan to Czechoslovakia in 1968. This was, however, an initiative outside the framework of ordinary trade negotiations. First of all, there was no sustained attempt to apply trade sanctions. Moreover, any variations in trade volume could be explained by the changes in prices of major commodities introduced in 1965, and decrease of Czechoslovak machinery exports in order to reduce the growing Soviet trade deficit which emerged in the 1960s because of the steady rise of machinery prices. The expansion of trade in 1968-70 also occurred because of Czechoslovakia's participation in joint investments projects, which were agreed before 1968, and increases in Soviet exports of oil and gas, and not because of pressure on Czechoslovakia to increase its intra-CMEA exchanges (Stone 1996, 89-94).

Similarly, there was no explicit link between the level of Soviet exports to Hungary and political issues during 1970-82, the period of implementation of the New Economic Mechanism, although the Soviet Union intervened in Hungarian politics. The Soviet Union did not use direct threats to cut major commodity exports to exert pressure on Hungary. The drop in Soviet oil exports to Hungary was consistent with the slower growth in oil exports to Eastern Europe as a whole in 1971-75 in comparison with 1965-70 (Stone 1996, 94-100). There was also no evidence that Soviet-Polish trade negotiations were affected by the rise of Solidarity (Stone 1996, 103-12).

Stone's overall conclusion is that the Soviet Union, despite the powerful economic leverage it could exploit as a main exporter of raw materials and energy and provider of a substantial subsidy to Eastern European countries, rarely made linkages between trade negotiations and political issues. In other words he disagrees with the proposition, well established in studies of Soviet-East European relations, that Soviet trade and economic policy was linked to security objectives and political relations. Implicit in this analysis is a view of Soviet Union as either a friendly or incompetent superpower.

However, the lack of evidence that the Soviet Union used trade subsidy as a lever of its political influence can not be taken as a proof that it did not treat economic links instrumentally for political ends and was a friendly power concerned about the welfare of its partners.

First of all, the results of bilateral negotiations between central planning agencies show that the Soviet Union used its bargaining leverage to good effect to dictate the terms of trade agreements and cooperation and East Europeans had to accept its demands.

As discussed in chapter 3 in more detail, until the end of 1960s the level of Soviet deliveries was not based on any economic considerations. However, from the late 1960s the Soviet Union embarked on a policy aimed at restoring terms of trade in its favour. As a temporary measure it began to demand that CMEA countries participate in joint construction projects in the development of the raw material base on Soviet territory. East European countries were forced not only to take part in these investments under a threat of not receiving any increases in Soviet exports of raw materials and energy, but also they had to accept prices below the world levels for their contribution to joint investments.

In the early 1970s the Soviet Union exerted even more pressure for a revision of its terms of trade. First of all, as mentioned earlier, it unilaterally changed in 1974 a

basis of intra-CMEA prices to maximise its revenues from energy deliveries.

Subsequently it began to demand hard goods for any increases in deliveries. The Soviet Union demanded that its allies also increase their exports of raw materials, and improve the quality of the finished goods they exported.

Since the late 1970s the Soviet Union, in a pursuit of a strategy of putting relations with its satellites on a commercial basis, began to insist on hard goods even for traditional deliveries of oil and gas, not only for increases. While the satellites tried to use a variety of bargaining strategies to maintain or increase the current level of deliveries, such as pointing to their economic difficulties or to the consequences for political stability of cuts in the Soviet exports, the Soviets rarely yielded to these arguments. Furthermore, in the second half of 1981 the Soviet Union put pressure on Eastern Europe to reduce their trade deficits which had increased significantly because of the raise in oil prices. This pressure was exerted regardless of the consequences for the stability of their domestic economies and their overall balance of payment. Frequently the Soviet Union demanded goods which were in shortage on the domestic market or were meant to be sold to the West. The extent of this move is illustrated by data (in 1980 prices) comparing deficits in 1981 and 1983. This comparison shows that during that period East European countries exported to the Soviet Union 21 per cent goods more and imported 18 per cent less and still had a negative balance of payment (Vanous 1985, 34).

In the late 1980s the Soviet Union, in the face of a deteriorating domestic economic situation, even began to renege on the structure of exchanges agreed earlier during the course of trade negotiations. In November 1988 during annual negotiations with Poland, the Soviets demanded that Poland export 'a basket' of selected goods in return for crucial raw materials. It was also not prepared to make any concessions with regard to East European participation in joint investment projects. For example, in September 1988 when Czechoslovakia refused to participate in the second round of

construction of the Krivoi Rog combine, the Soviet Union reduced their planned iron ore exports to Czechoslovakia for 1991-95 (Stone 1996, 60-1). Similarly, in 1985-86 Poland was forced to participate in the construction of the Yamburg natural gas pipeline under a threat of not receiving increases in gas deliveries.

This account shows that Soviet Union consistently imposed its conditions in the negotiating process which determined the levels and structure of exports and imports of its partners in order to make East Europeans contribute to the requirements of Soviet economic policy. Moscow controlled both the price and quantity of energy deliveries, especially oil. The volume of intra-CMEA trade and its imports of East European machinery depended ultimately on Soviet capabilities and willingness to export its primary goods and Soviet negotiators took advantage of this bargaining strength to achieve their goals.

These issues were not only of economic importance. Firstly, the determination of the trade levels and the investment contributions was an instrument for subordinating Eastern European economies to Soviet economic priorities, which often conflicted with the requirements of East European economic and political stability. Secondly, the pattern of exchanges was the result of the political determination of the Soviet Union to maintain a model of cooperation which was not profitable for the Soviet economy but which ensured the continuing dependence of the East Europeans on Soviet markets and limited their economic ties with the rest of the world. The Soviet Union tried to resolve this conflict between Soviet political objectives in the region and broader economic considerations by forcing East Europeans to contribute to the maintenance of the model.

There were also more explicit examples of linkages between trade and political issues when political considerations affected the Soviet negotiating position. On the one hand, there were instances when the Soviet Union was prepared to make some concessions for political reasons. This was related to situations when East European

countries faced serious economic problems which could endanger the political cohesion of the entire bloc and the Soviet Union accepted their demands in the interests of 'fraternal socialist relations'. For instance, the Soviet Union temporarily tolerated deficits following the increase in oil prices in 1975 and even granted credits to East European countries hurt by rising energy prices. The Soviet Union also extended credits and granted explicit price concessions to Poland after 1981 when the country faced economic crisis. Moreover in 1985-86 when the frail Polish economy, deprived of Western credits and burdened with debt, faced grim growth prospects the Soviet Union agreed to Polish requests not to participate in joint investments such as the iron-ore development at Krivoi Rog. It also agreed to maintain its export levels while accepting a decrease in Polish exports of raw materials and energy (Stone 1996, 69-70).

On the other hand, the Soviet Union seemed to have used its bargaining strength to indicate its disapproval of certain domestic political developments. Available data suggest that with the rapid increase of world prices of oil in the 1970s and early 1980s the Soviet Union adopted a differentiated approach to the various East European countries with regard to the levels of deliveries of fuel and energy and their prices. Those 'better' ones such as Czechoslovakia, East Germany and Bulgaria were given 'special treatment', in line with the approach described above, and received significantly bigger deliveries of oil and gas, than 'worse' ones such as Poland or Hungary. Moreover, throughout 1976-80 East Germany paid more than 25 per cent less for its oil than Hungary, while the average price to Czechoslovakia was only slightly above that for East Germany. Poland and Hungary were also ranked worse than the other three by having to satisfy a larger percentage of their oil needs on world markets. For any increase in deliveries the second group had also to pay in convertible currencies or by investments in the Soviet Union (Hardt in Terry ed. 1984, 206).

Another compelling argument against the proposition that economic relations were not an extension of Soviet policy were successful and unsuccessful attempts to use

CMEA as an instrument of economic subordination of Eastern Europe. This was done primarily through enforced investments which increased dependence on the Soviet market, in particular through the imposition of export specialization directions and joint investments. Another example of this subordination was the introduction in the major programs the Comprehensive Program (CP) and the Comprehensive Program for the Scientific and Technical Progress of the CMEA Member-Countries up to the Year 2000 (CPSTP), discussed in the following chapters, of forms of cooperation which would enable the Soviet Union to use CMEA cooperation to dictate priorities in key sectors of East European economies.

The export specializations of individual countries and the establishment of industries within the CMEA as a result of Soviet pressure were major factors determining the industrial structures of East European economies. On the one hand, this had positive consequences, as export specialization created opportunity for smaller CMEA members to undertake the development of ship-building industries, machine-building, etc, which allowed a change in the commodity structure of their exports in favour of an increased share of manufactured products. For a long time this also meant improvement of their terms of trade with the Soviet Union. On the other hand, however, export specialisation in Eastern Europe was often not economically rational from the perspective of their natural resources and traditions. For example, agrarian countries with established light and food industries and agriculture specialised in heavy equipment. The economic calculus was based not on current but on future comparative advantages (Bozyk 1990, 4). Furthermore, the intra-CMEA specialisation geared to Soviet market needs included primarily material- and energy-intensive products. In the long term this contributed to the reproduction of energy- and material-intensive economic structures imposed by the Soviet Union in the early 1950's (Durka 1992, 11; Florczak 1986, 78). This led to the perpetuation of economic dependence and political subordination of socialist countries to the Soviet Union insofar as it preserved their

dependency on the deliveries of Soviet raw materials and blocked resources necessary for the modernisation of industrial structures.

This dependence explains also why, as testified by East European negotiators (Stone 1996, 56), the Soviet Union did not need to apply consistent pressure on Eastern European states to reorient their trade from the West to the Soviet bloc. In their reorientation East Europeans were constrained by their ability to pay for Western products and pay off Western debts in convertible currencies while for Soviet materials they could pay with their products. Consequently, because of their dependence on the Soviet Union for raw materials and energy, East Europeans could not sever their economic ties without serious consequences for the stability of their economies.

The discussion shows first of all that the pattern of Soviet pressures on investment policies and terms of exchanges is inconsistent with the interpretation of Soviet economic policy towards Eastern Europe as an area divorced from political considerations. While it can be conclusively stated that the differences in prices were not designed as a political tool of influence, and that as a rule the Soviet Union did not use economic sanctions in 'crisis' situations, there is ample evidence that the Soviet Union consistently used CMEA instruments such as trade and specialisation agreements for political purposes: to facilitate the political and economic consolidation of the CMEA grouping by making East Europeans dependent on Soviet resources and market.

The absence of evidence that 'trade subsidy' was a deliberate policy tool suggests that subsidy arose automatically from the mechanism of intra-CMEA price determination and as a result of the commodity structure of exchanges. Consequently it was to fluctuate and hurt the Soviet Union as long as it was a net importer of manufactures. Therefore, distortions in prices were not perceived by the Soviet Union as subsidies and thus as a bargaining tool. This does not mean that the Soviet Union did not resent these unfavourable terms of trade. Indeed, as demonstrated in the following

chapters, it tried to change them by efforts to 'modernise' its structure of exports and making East Europeans contribute to the costs of investments.

Finally, the evidence that the Soviet Union did not use trade negotiations (which does not necessarily equate with a subsidy) in crisis situations to influence political behaviour of its satellites does not need to be interpreted as a sign of deliberate policy of not using trade for political purposes. The most likely explanation of the 'failure' to act relates to the fact that both sides were acutely aware of the extremity of their dependence on Soviet oil imports.¹ Consequently, the Soviet Union could not cut deliveries without both severe economic disruptions and raising strong anti-Soviet feelings. The Soviet Union had at its disposal much more effective means of exerting pressure than sanctions which could only destabilise the situation further.

Organizational principles of the CMEA. The formal powers of CMEA organs.

It is generally assumed that the fundamental principles of CMEA from the very beginning of its operation were the formal sovereignty and full equality of rights of all member countries. These principles were not mentioned, however, in the founding Communiqué (Butler ed. 1978, 123). It was only in 1957 that the CMEA Charter - in Article 1 - set forth these premises of economic cooperation unequivocally, describing the organisation as based on the principles of socialist internationalism, respect of state sovereignty, independence and national interests, full equality, and mutual benefit (Butler ed. 1978, 125). These principles of economic cooperation were then further consolidated in subsequent legal acts which directly followed from the CMEA Charter, the rules and procedures of its bodies and the regulations governing the Standing Commissions and the CMEA Secretariat.

The principle of sovereignty of individual members formally excluded the question of the CMEA as a supranational body with directive powers to allocate

¹For relevant Soviet and East European views see Stone (1966, 99, 107).

resources available in the region, superior to its member governments in power and authority (Bogomolov ed. 1987, 208). Economic cooperation was to be realised through the cooperation of sovereign socialist states on the basis of state ownership and the regulation of economic activities through the state plan. These principles meant that national authorities in individual states retained their formal political autonomy to decide their economic priorities and exercise complete decision-making authority with regard to internal planning and the distribution of economic resources. With regard to foreign economic links, each country conducted them on the basis of the state monopoly of foreign trade.

The formal rights of member states were additionally secured by other procedural means which guaranteed the voluntary participation of each of the countries in any CMEA undertaking. Initially, this function was performed by the universality principle, which required the agreement of all members in any new cooperative venture before it could be embarked upon. Since this principle entirely excluded the possibility of certain projects unless the interests of all CMEA members was secured, this stipulation was eventually replaced in a 1974 amendment by the 'interested party principle' which stated that if some CMEA members wanted to participate in a specific cooperation project in which others were not interested, they should not be bound by what other members decide to pursue. This procedure ensured that no member could be bound without its permission by CMEA decisions. The new procedures effectively prevented a veto by members not interested in a given project, but they also precluded coercion of a member by interested countries. This principle was affirmed by an amended Article 4, Point 3 of the revised CMEA Charter which specified that 'each country has the right to declare its interests on any question considered by the Council' (Butler ed. 1978, 127).

The sacrosanct nature of these principles safeguarding national sovereignty and voluntariness within the CMEA framework was emphasised particularly strongly in Soviet literature after the failure of the idea of supranational authority in 1962 thus

creating an impression of CMEA as an organisation where all the countries had equal powers. A number of authors stressed that the principle of non-interference was observed in all political and economic affairs and that CMEA decisions were taken only with the consent of the countries concerned. There was particular emphasis that each country independently worked out its draft economic development plan in accordance with internal conditions and specific economic and political priorities and that no interference could be exercised by one country in the economic planning by another during the process of coordination of national plans (Alekseyev 1963, 18-23). The interested-party provision was justified by an acknowledgement that as member countries differed substantially from one another in their level of economic development and in their priorities, the participation of all CMEA members in the proposals could not be expected.

These powers accorded to the national governments as the main subjects of CMEA economic cooperation determined the formal powers of CMEA organs and decision-making procedures and were fundamental to the CMEA decision-making process and its organisational structures and mechanisms (Bogomolow ed. 1987, 347). The concentration of all major decisions regarding objectives, methods and instruments of cooperation in separate national centers with nominally equal powers determined the character of the CMEA as an interstate organisation with consultative and coordinating functions but without effective powers to enforce policy.

In accordance with these powers of nation-states the Session and other CMEA organs could make decisions, which were binding for individual members, only on organizational and procedural questions and thus of matters of lesser significance for CMEA operation (Butler ed. 1978, 126). However, in questions pertaining to economic and scientific and technical cooperation, representing the critical issues of CMEA operation, CMEA organs were authorised only to issue recommendations whose implementation depended on governments or competent national agencies. Only upon

their acceptance by CMEA countries in conformity with their national legislation, did recommendations become reciprocal international legal obligations of these countries.¹ This provision had, however, a purely formal character, as in practice, all recommendations were approved by the national authorities (*Ekon. sotr. stran chlenov SEV* 1986:5, 85).

These principles and procedures of CMEA operation guaranteeing the rights of individual national governments to decide their participation in CMEA projects, had to some extent only a nominal character, and their meaning has to be understood in the context of power relations in the bloc. The procedural rules of voluntarism and interestedness clearly could not prevent the enforcement of cooperation in cases where the Soviet Union was in a position to exert pressure on their investment decisions and the commodity structure of their imports. But they did exclude the possibility of using CMEA as an instrument of coercion for the determination of their economic strategies as it was under Stalin. National authorities also retained effective instruments to protect their rights and to resist pressures, as ultimately they were responsible for the creation of economic, organisational and legal conditions for the realisation of specific cooperation ventures.

The organisational structure of CMEA. The formal and informal structures involved in the CMEA decision-making process.

The potential for conflict between the formal and actual powers of CMEA participants was also apparent in the hierarchy of structures involved in the CMEA decision-making process. As argued throughout this thesis the most important decision-making body influencing CMEA affairs was the leadership of the CPSU. Although

¹The CMEA Charter, art IV.1 (Butler ed. 1987, 126) states that recommendations made by CMEA organs are strictly subject to ratification by the member governments' proper parliamentary organs.

outside the formal structure of the CMEA the CPSU had a central role in determining directions and terms of cooperation.

Also outside the formal structure of the CMEA, but in practice the highest, official, decision-making body issuing authoritative political guidelines concerning the directions of CMEA cooperation were the Conferences of the Secretaries of Communist Parties and Leaders of the Governments of CMEA member countries. Their resolutions were not formally binding on the CMEA, but because of the status of the Conferences they were routinely confirmed by the formal CMEA organs. A Polish legal writer thus commented on the relationship between the Conferences and the CMEA: given the "role of these parties as the leading political force, the directives adopted by [these conferences] are in fact binding and the appropriate organs of the organization are only called upon to give them formal legal force" (Klepacki 1975, 50 in Brabant 1989, 133).

A number of Conferences were specifically devoted to the issues of economic cooperation and endorsed the strategies and principles of the CMEA's activities. For example, the 1958 Conference adopted decisions on the development of intra-bloc cooperation on the basis of the international socialist division of labor (ISDL), the 1962 Conference endorsed the Basic Principles; and the 1969 Conference endorsed the concept of 'socialist economic integration' and gave authorisation to draft the Comprehensive Program.

Direct bilateral coordination of economic relations at the inter-state level was conducted by Intergovernmental Commissions for Economic and Scientific and Technical Cooperation. The Intergovernmental Commissions coordinated all the questions of bilateral economic, scientific and technical cooperation and concretised multilateral agreements with regard to bilateral relations. They were headed by deputy prime ministers and had executive organs. Their functions overlapped with CMEA in many areas, such as consultations on the coordination of plans, meeting fuel and power

needs, cooperation in expanding the raw material base and specialisation and cooperation of production.

The formal CMEA decision-making institutions.

The formal CMEA organisational structure responsible for the elaboration of CMEA strategies and realisation of the CMEA's objectives evolved in response to launching of major CMEA strategies. For instance, a major expansion of CMEA structures and an increase in their functions followed the adoption of the Basic Principles in 1961 and the Comprehensive Program in 1971. The institutional strengthening of the CMEA also reflected the growing complexity of national economies and their diversification into sectors. In comparison with the initial five years of CMEA operation, when its organisational structure consisted of the Bureau, Secretariat and ad hoc working parties and subdivisions of the Bureau, in 1983 the CMEA's official organs consisted of the Council Session, the Executive Committee and its sub-committees, fourteen Standing Commissions, Secretariat, two Institutes and the Conferences. Furthermore, under the auspices of these representative organs there were more than three hundred permanent and temporary working organs. The majority of organs operated in the area of joint planning activities at the multilateral level. The system reproduced sectoral structures throughout the CMEA countries.

Organisational forms of cooperation of CMEA members did not have a supranational, but an inter-state character. As formal decision-making authority rested entirely with the individual countries, each of these bodies did not have powers to issue directives binding on national economic and planning bodies but possessed only advisory and recommendatory powers. Their recommendations did not have a directive character in relation to national planning and economic organs but were based on a voluntary agreement.

Formally the CMEA's supreme policy-making body was the Session of the Council. It was composed of delegations of all member countries with one vote each. The national delegations to this deliberative body usually consisted of the Permanent Representative to the CMEA, his deputies, high-level members of national governments and also, after the twenty-fourth Session in 1970, the Prime Minister, who officially headed the delegation. It normally met not less than once a year, rotating among the capitals of the member countries.

The Session considered the basic questions of economic and scientific-technical cooperation and determined the principal orientations of the activity of the Council. It gave recommendations on trade agreements and approved the programs of plan coordination, specialization and cooperation of production and the principles of regional price formation. It endorsed policy programs, such as the Basic Principles and the Comprehensive Program and major institutional changes. The Session also directed the activities of the Secretariat and its subordinate organs. It considered proposals and reports of the Executive Committee and its Committees and Standing Commissions. Furthermore, it was empowered to take decisions regarding setting up new official organs and thus the further institutional strengthening of the Council (Butler ed. 1978, 127-8; Bogomolov ed. 1987, 373).

The Session could adopt recommendations on matters of economic and scientific-technical cooperation and decisions on organizational and procedural questions. For the Session's recommendations to become binding, they had to be endorsed by appropriate State organs. This requirement was of purely formal nature, however, as the government representatives heading state organs responsible for the endorsement of recommendations participated in the Council Session's.

The Executive Committee.

The principal executive body of the CMEA was the Executive Committee. It was established in 1962 to replace the Conference of Representatives of the CMEA member countries. It was composed of deputy prime-ministers of member countries who were as a rule also their Permanent Representatives. From 1971 it met once every three months.

The idea which inspired its establishment was the plan to transform the CMEA into a supranational authority. According to this conception the Executive Committee was to be a planning center with region-wide responsibilities. With the failure of this project, the Executive Committee assumed the function of a consultative organ whose primary responsibility was the elaboration of policy recommendations and supervision of their implementation by CMEA members between Session meetings. Within the limits of its competence the Executive Committee could adopt recommendations and decisions and make proposals for consideration by the Session of the Council. It supervised the work of all other CMEA bodies, determining the main directions and areas of their activities.

On the basis of proposals prepared by other CMEA organs the Committee made major decisions regarding instruments and forms of cooperation and evaluated the effectiveness of proposed measures. Its functions also included directing the work on plan coordination, foreign trade agreements and working out the main directions of the development of specialisation and cooperation in production and scientific cooperation (Butler ed. 1978, 128; Bogomolov ed. 1987, 373).

The first Council committees were set up in the early 1970s in direct support of the measures outlined in the Comprehensive Program. They were attached to the Executive Committee and were established primarily to provide an institutional framework for multilateral cooperation to supplement traditional bilateral coordination of national plans. The importance of the Committees lay in the fact that although their

primary functions were recommendatory and advisory, they were also empowered to submit proposals for consideration by CMEA Sessions and to set priorities and make appropriate assignments which were binding for other CMEA agencies. This was ensured by the participation of top planners and policy makers in their activities. Their responsibilities included dealing with the critical components of national plans to attain greater consistency in production and consumption, particularly of engineering products.

The Committee for Cooperation in Planning set up in 1971 was responsible for the deepening of multilateral cooperation in planning. It was the most important of all the Committees, as it was composed of the chairmen of the national planning bodies. The Committee replaced the Bureau of Executive Committee for Joint Problems of Economic Planning which was established in 1962 to supervise the coordination of plans. The Committee was charged with forecasting, identifying long-term problems of cooperation, preparing investment proposals, organising multilateral consultations on the key issues of economic policies, joint planning, the co-ordination of five-year and long-term plans and concurrent trade agreements and ensuring the effective participation of the central planning agencies in this activity. It played a central role in the preparation and supervision of the Agreed Plans and the Target Programs. It could issue recommendations which were subject to approval by national authorities.

The Committee had a permanent operating body, a Bureau, which comprised the deputy chairmen of the central planning bodies of the member countries. The Bureau had the right to submit proposals for consideration by the Executive Committee or Session. It organised multilateral agreements between CMEA members in the sphere of material production and monitored the fulfilment of commitments undertaken by CMEA members following their endorsement of the recommendations of the Committee, Executive Committee or Session (Bogomolov ed. 1987, 373).

The Committee on Scientific and Technical Cooperation was upgraded in 1971 from the level of a Standing Commission for Coordination of Scientific and Technical Research set up in 1962. Its function was the realisation of the scientific-technical aspects of the Comprehensive Program. The Committee organized multilateral consultations on scientific and technical matters, cooperated with the Committee for Cooperation in Planning on the coordination of national economic plans in the sphere of science and technology and coordinated the activities of the international organisations and research centers (Faddeyev 1974, 74).

The main task of the Committee on Cooperation in Material and Technical Supply, which was also upgraded from a Standing Commission in 1974 was to facilitate high-level cooperation in the development and utilization of CMEA resources to ensure meeting the needs of member countries in scarce resources and raw materials.

Standing Commissions.

Cooperation at the branch level was conducted in the Standing Commissions. The first seven Commissions were established in 1956. By the end of the 1950s, there were seventeen commissions and by 1983 the number of commissions had dropped slightly to fourteen. The initial increase in their role in organising cooperation took place in the late 1950s as a result of the 1958 decision adopting the coordination of plans as the mechanism of coordination of economic policies of CMEA members. Their main functions related to issues relating to plan coordination. They were responsible for the promotion, organisation and development of economic and scientific and technical cooperation in concrete areas at the sectoral level, and for the multilateral coordination of inter-sectoral specialisation and cooperation of production (Bogomolov ed. 1987, 374).

They replaced the ad hoc working parties and subdivisions of the Bureau and, later, of the Secretariat. The permanent commissions were generally organized along

sectoral lines of the national economies, such as agriculture, the chemical industry, coal, electrical energy, ferrous metallurgy, nonferrous metallurgy, foreign trade, engineering, forestry, oil and gas, timber and cellulose, and geology, construction, economic questions, transportation and food and light industries. A number of them were responsible for functional areas, such as statistics, monetary and financial questions, currency issues, standardization, and were concerned only with the elaboration of instruments of cooperation.¹

The Standing Commissions were in session at least twice a year, usually in Moscow. Their actual work was carried out in the corresponding Secretariat's departments and in some national agencies and institutes. They could make recommendations concerning cooperation in the corresponding national sectors of industry, which had to be approved by the Executive Committee, for presentation to the Council Session for endorsement and then approval by the interested member governments. The Commissions also elaborated forecasts of future demand for raw materials and equipment, monitored the fulfilment of commitments undertaken by CMEA members, coordinated plans of joint scientific research and design works, organized exchanges of information and established working groups (Bogomolov ed. 1987, 384 -5).

¹ The Standing Commissions of the CMEA at the end of 1984 were:

- 1/ The Coal Industry Commission
- 2/ The Oil and Gas Industry Commission
- 3/ The Electric Power Commission
- 4/ The Ferrous Metallurgy Commission
- 5/ The Nonferrous Metallurgy Commission
- 6/ The Chemical Industry Commission
- 7/ The Machine-Building Commission
- 8/ The Construction Commission
- 9/ The Commission on Light industry and the Food industry
- 10/ The Agriculture Commission
- 11/ The Transport Commission
- 12/ The Commission on Cooperation among Council Countries in the Peaceful Use of Atomic Energy.
- 13/ The Foreign Trade Commission
- 14/ The Commission on Economic Questions

Standing commissions and Council committees were endowed with only recommendatory and advisory powers. Consequently their role in the process of coordination of plans was limited to assisting the countries in selecting the areas for cooperation.

The Secretariat.

The only permanent CMEA body which carried out the day-to day operations of the CMEA was the Secretariat, headed by a Secretary, a Soviet official. It was divided into departments generally corresponding to the Standing Commissions and several other staff agencies. According to the Charter, the Secretariat was responsible for organizing the meetings of other CMEA organs, particularly the Council Session. It prepared agendas for its superior bodies and coordinated the work of the various subsidiary organs, chiefly the Standing Commissions and Interstate Conferences. It undertook preparatory work connected with policy recommendations and their implementation. Jointly with Standing Commissions, it worked out proposals for multilateral agreements. It was not empowered to enact and impose recommendations on the member states on its own initiative (Butler ed. 1978, 131-2; Faddeyev 1974, 77).

Institutes.

Under the CMEA auspices there were also established a number of research institutes. At the end of 1983 they included the Standardization Institute (set up in 1962), the International Institute for Economic Problems of the World Socialist System (set up in 1971) and the International Research Institute for Management Problems (established in 1975). They were concerned with the theoretical aspects of economic cooperation, rather than with the application of their studies (Faddeyev 1974, 85).

Conferences.

Permanent conferences of officials in charge of ministries and associations of CMEA members were also regarded as CMEA organs. These inter-state bodies had purely a consultative character and provided venues for the study of problems, for the supervision of administrative tasks in a specific area, and for the exchange of views and information between relevant national organisations. There were the Conferences of Ministers of Domestic Trade (1986), Ministers of Labor Affairs (1974), Heads of Technological Inventions and Patents (1971), Price Office Chiefs (1973), Representatives of CMEA Members on Legal Questions (1969), Water Administration Heads (1962) and Representatives of Freight Transport and Shipping Organizations (1951) with a permanent executive organ, the Bureau for the Coordination of Ship Charters (1962) (Faddeyev 1974, 78-82; Brabant 1989,153).

They were subordinated to the Executive Committee and its specialized Committees. They could submit proposals to the Executive Committee and convene meetings with Standing Commissions. They were not empowered to make recommendations, but they could adopt guidelines on procedural and organisational matters and conduct consultations within their competences. Given their expressly consultative functions they could not impose their decisions on national governments.

Economic Organisations.

An important part of the framework of CMEA cooperation were the institutions affiliated with the CMEA: interstate and international economic organisations, and inter-governmental economic organizations. According to their constitutive documents they were not formally CMEA organs but independent organisations conducting relatively independent activities, with their own statutes and regulations. In practice,

however, their activities were very closely linked with formal CMEA organs operating in the same fields. The CP emphasised that they were not supranational bodies and should not deal with questions of internal planning (Butler ed. 1978, 77).

The majority of affiliated organs were set up as a result of the recommendations of the Council Session and the Executive Committee which drafted legal documents to facilitate their establishment and regulate their activities. They cooperated with the CMEA on the basis of agreements defining them as specialized agencies. These agreements obliged organisations to take the CMEA's recommendations into account in their activities and inform appropriate CMEA bodies about the result of the implementation of these recommendations.

The interstate economic organisations, such as Interkhim, Interkosmos, Interenergomash had been in existence since 1956, but their number more than doubled in the 1970s. The inter-state organisations operated primarily at the intergovernmental level. The main function of these organisations was the co-ordination of the actions of participating countries in the particular branches of the economy through joint organisation of research and planning, standardization, specialization and coordination of national production plans. They were not involved in production. Their activities were governed by the 'interested party' principle with unanimity required for 'key questions' of cooperation (Butler ed. 1978, 77-9).

International Economic Organizations were created to coordinate and to be directly involved in activities in production, scientific research, in services and foreign trade at the enterprise level (Butler ed. 1978, 79-80). They were hailed as the most significant organisational form of integration in the early 1970s. Their main purpose was to facilitate direct links between lower-level economic units of participating countries, such as enterprises, trusts, associations, research institutes, design bureaus, across national boundaries (Rodionov 1971, 2). They were intended to be production-

oriented 'amalgamations' rather than simply coordinating centers, designed to promote the 'internationalisation of production' in CMEA (Shabalin 1975, 17-8).

Their stated aim was the rationalisation of the use of resources in a given area by the allocation of resources of participants in a way which would eliminate parallelism in production and bring about the benefits of economies of scale (Marszalek 1988, 36). This was to be achieved by means of joint planning. Thus, even though their participants formally retained their property and legal and organisational independence, they represented the form of cooperation which raised most fears of increased Soviet domination through a possible operation of these organisations independently of national economic planning and the national state.

International economic organisation also included sectoral and transportation organisations. The more important ones included: the Central Dispatching Administration controlling the integrated *Mir* power grid (1962), the Common Freight Car Pool (1964), the Bureau for coordinating the chartering of ships, the network of oil and gas pipelines, Intermetall (1964) for cooperation in the field of ferrous metallurgy, and Interelktro (1973) for the coordination of electrotechnical equipment.

International economic associations

Multilateral joint planning in specific sectors was also conducted by international economic associations which were established as a result of agreements between participating countries. They coordinated the activities of enterprises, associations and research institutes of countries interested in this form of cooperation and were involved in production, research and sales activities. They included Interatominstrument, Interatomenergo, Interchimvolokno (Soldaczuk et al. 1983, 391).

Jointly owned enterprises

Joint enterprises were involved in industrial production, the extraction of raw materials and transportation activities. They were created chiefly to alleviate the shortage of some commodities. They also represented an effective way of by-passing restrictions on trade or scientific and technical cooperation. They had their own funds, operated on the basis of profitability criteria and enjoyed independent status. However, they were subject to the laws of the host country. In the period examined they included Haldex 1959, Agromash 1965, Intromash 1965, Druzhba 1972, Erdenet 1973, Service 1976.

Conclusion

The discussion in this section has sought to demonstrate the decision-making authority concerning CMEA cooperation lay outside its formal organs. On the one hand, the official CMEA organs did not initiate strategies, they endorsed decisions previously agreed at the summit meetings or reached as the result of informal political decision-making within the framework of inter-party relations. On the other hand, CMEA organs also had no powers to impose their recommendations on its members. In particular they were not empowered to issue binding instructions on substantive matters of plan coordination and production specialization. While recommendations adopted by the main CMEA organs were without exception approved by the authoritative organs of member countries, in reality their actual implementation, including the allocation of material and financial means was beyond the control of CMEA organs who did not have powers to enforce CMEA recommendations.

The very limited powers of CMEA organs were a reaction to the reality of unequal political, economic and military power in the Soviet bloc. Given these differences between the Soviet Union and East European members it was only natural that smaller East European states were wary of procedures or forms of cooperation which could

encroach upon the rights of their governments to determine their economic policies. They were interested in securing cooperation that would have a minimal impact on national sovereignty and were reluctant to delegate any powers to CMEA organs.

In order to minimise the danger of the Soviet dominance over East European economies through a tighter, even a supranational, CMEA infrastructure, East European members insisted on principles of sovereignty and procedural rules which guaranteed individual members the right to determine their economic development plans in an autonomous way. While these procedures could not protect East European states from pressures through indirect economic means, they rendered formal CMEA structures ineffective as an instrument of direct Soviet coercion.

The logic of the principles and institutional safeguards governing CMEA, stemming from the dominant position of the Soviet Union in the region, was thus an important factor constraining the process of formulation and implementation of a regional cooperation strategy, as it limited cooperation to the achievement of these CMEA goals which would not conflict with the preservation of economic sovereignty. East European leaders generally did not object to multilateralism per se as long as cooperative ventures did not impinge on matters of internal planning and as long as CMEA's procedural rules ensured decision-making by consent. This meant that the Soviet Union, in the absence of direct means to ensure compliance with Soviet objectives, had to resort to the creation of a structural dependencies which would leave East European states no option but to agree to its demands.

The CMEA was thus an organisation which had no real powers to enforce the implementation of its policies. It was purposefully deprived of powers of determining the policies of its members by smaller countries trying to secure at least formal rights to determine their economic policies. Under conditions of Soviet domination this meant denying it the powers of coercion.

Summary.

This chapter showed the limitations imposed on the process of cooperation by the ‘internal logic’ of CMEA economic mechanisms and principles and procedural rules governing CMEA. The first part described economic mechanisms and their limitations as effective instruments of cooperation showing that the functions of CMEA mechanisms were consistent with the operation of a centrally planned economy which, as argued in chapter 1, had to conform to the Soviet model. In other words the mechanisms were structurally determined by the requirements of Soviet political domination and the limits of permissible reforms were determined by Soviet economic reforms.

The second part showed that the record of negotiations demonstrates conclusively that CMEA cooperation was consistently used by the Soviet Union for political ends through trade and specialisation agreements and that the terms of cooperation were determined by the political importance of the region. Furthermore, while it is beyond the scope of this thesis to provide an independent verification of subsidies, and the controversy regarding their possible magnitude can be conclusively settled only with the access to Soviet data regarding prices, it can be confidently said that the Soviet Union did not design ‘implicit subsidies’ as a political tool of pressure.

The third part described procedures governing decision-making and consequent obligations of the member countries. It showed that these rules of CMEA operation provided opportunities for smaller countries to resist at least direct Soviet interference. Thus they gave individual members means of control over their economies despite Soviet political dominance and forced the Soviet Union to rely on other means of pressure.

In the next part of the thesis I will describe how this ‘internal logic’ of CMEA mechanisms provided certain coherent outcomes. I demonstrate how, on the one hand

these mechanisms and principles of operation constrained CMEA cooperation, and how CMEA members could use these instruments for their own benefit to maximise their advantages from cooperation, while failing to fulfil commitments which they perceived as disadvantageous or unfair.

CHAPTER THREE

1953-1984: PRESSURE FOR CMEA INTEGRATION.

This chapter examines CMEA objectives, strategies and mechanisms of cooperation and the implementation of strategies in the years 1953-1984. It is divided into three main sections. The first examines political considerations and economic criteria which had a bearing on the process of decision-making concerning CMEA cooperation under Khrushchev. The second focuses on the Soviet Union's political and economic priorities and the motives behind the pressure for CMEA economic cooperation under Brezhnev. The aim of the discussion in these two parts is to identify systemic constraints imposed on CMEA operation by Soviet domination. I demonstrate that the constraints derived firstly from the fact that the Soviet Union controlled the formulation of CMEA strategies, whose objectives were subordinated to the requirements of the Soviet economic policy and were to contribute to the maintenance of Soviet power in the region. Furthermore, the requirements of Soviet domination determined the choice of CMEA mechanisms which had to conform to the system of management of the Soviet Union's national economy.

The third section examines the implementation of the Comprehensive Program. It compares the actual methods and processes of cooperation with the postulated ones and explains the reasons for the failure of CMEA strategy. I argue that the processes and policy decisions which undermined cooperative arrangements derived from the internal logic of the domestic mechanisms of Soviet bloc economies or were responses to Soviet attempts at imposing terms perceived by East Europeans as serving Soviet interests. By demonstrating that the problems with the implementation of CMEA strategies derived from the logic of operation of the Soviet-type model and its consequences as well as from the Soviet Union's attempts at subordinating CMEA to its objectives, the analysis supports the main argument of this thesis that the factors

which ultimately contributed to failure of the CMEA were political constraints on its operation imposed by the Soviet Union.

1953-1964: Factors determining pressure for CMEA integration under Khrushchev.

Stalin's death did not change perceptions of the strategic and political importance of Eastern Europe in Soviet foreign policy and Soviet priorities in the region. There was, however, a perceptible change in Soviet policy direction towards Eastern Europe, closely tied to changes in internal Soviet politics, new principles of relations with the capitalist countries and intra-bloc dynamics.

The dominant feature of Soviet internal politics from 1953 until 1957 were considerable disagreements over policies as a result of the struggle for power amongst Stalin's successors, which ended when Khrushchev removed his rivals from the CPSU leadership. The process was accompanied by modifications of the political processes entailing the renunciation of Stalinist methods of control and intimidation and reevaluation of the role of security services in favour of ensuring legality.

In domestic economic policies this period was marked initially by the New Course, launched by Malenkov in August 1953, which entailed fundamental shifts in priorities but without questioning the validity of the overall strategy of industrialisation. The strategy included the scaling down of investments in the heavy industry in order to remove the imbalances in the economic structure caused by excessive investment in this sector at the expense of agriculture and the production of consumer goods. This course was abandoned when Khrushchev consolidated his position in the Soviet leadership and there was a gradual return to emphasis on the priority of heavy industry.

In relations with the West, Stalin's successors initiated a new approach aimed at the improvement of relations and creating 'breathing space' which would allow a reduction in armaments spending and increase investments in agriculture and

consumer industries. As the basic principle of the Soviet Union's relations with the capitalist countries Khrushchev promoted 'peaceful coexistence' which, in his interpretation, involved intensified competition between the two systems in all ideological, economic, diplomatic areas short of direct military confrontation.

Soviet policy towards Eastern Europe was strictly tied to the policy of reducing tensions with the West and a departure from rigid Stalinist policies and autocratic style of government at home. The new approach entailed new methods of regulation of intra-bloc relations resulting in the increased internal autonomy of the satellite countries.

The change of the status of East European countries was initially effected by the renunciation of Stalinist methods of direct interference in East European domestic affairs and the abandonment of detailed supervision of East European political, security police, and military agencies by means of Soviet advisers. In the sphere of economic relations it was manifested in the departure from the policy of exploitation and direct interference in East European economic policies and more equitable commercial ties. The Soviet Union stopped the exploitative measures such as the operation of joint stock companies and gradually reduced and eventually put an end to reparations payments imposed on ex-enemy states in 1954.¹ In July 1955 the CPSU Plenum issued an official condemnation of the policy of direct exploitation and interference in the economic affairs of East European economies. Their domestic economic policies, however, closely reflected Soviet priorities. Under the New Course in 1953-54 East European countries were permitted to abandon the strategy of rapid industrialization and put emphasis on the production of consumer goods and goods needed by light industry and agriculture.

The position of the satellites in the Soviet bloc was also changed as a result of the shift in Soviet policy on the right of East European communist parties to construct

¹In autumn 1954 the Soviet Union sold its share in the mixed companies in Hungary, Rumania and Bulgaria (Brzezinski 1979, 167).

socialism with regard to national differences. The new approach to Eastern Europe was initially symbolized by the policy of reconciliation towards Yugoslavia which was initiated in the autumn of 1954 and entailed the resumption of economic and, later, diplomatic relations.

In ideological terms this new attitude was expressed first in an acceptance of the ideological legitimacy of the Yugoslav road to socialism. In the Soviet-Yugoslav agreement signed in June 1955 Khrushchev declared that 'the roads and conditions of socialist development are different in different countries'. Subsequently, the doctrine of 'separate roads to socialism' was formally endorsed by Khrushchev in his address to the 20th Congress of the CPSU in February 1956 when he acknowledged that 'ways to socialism may differ' (Brzezinski 1979, 182).

Early pronouncements that the ways to socialism could vary according to the concrete conditions in each country seemingly did not define the limits of legitimate diversity. However, very early on it was clear that the right to pursue a national road to socialism was qualified by insistence on the conformity of communist parties to the common Marxist-Leninist norms and values in their pursuit of a communist goal.¹ In November 1956 a Soviet chief party ideologue, Suslow, specified these norms by invoking again the notion of universal laws of the transition to communism which were to be strictly followed by all communist parties. The laws included the establishment of political rule by the working class led by its vanguard, the strengthening of the alliance of the working class with the peasantry, the liquidation of the capitalist ownership of industrial enterprises, banks, transport and communication, the establishment of the public ownership of the basic means of production and the consequent planned nature of the economy and the defence of the gains of the socialist revolution from the encroachments of the former ruling exploiting classes.

¹ This approach was apparent in an article published in *Pravda* (16 July 1956) which, referring to the internationalist solidarity of "fraternal revolutionary parties, adhering to positions of Marxism-Leninism", reminded communist parties that they "are moving toward one goal, toward communism. It is impossible to move separately or haphazardly toward such a great goal." (cited in Brzezinski 1979, 248).

Furthermore, freedom of choice of East European countries in conducting their policies was restricted by reference to the doctrine of the advanced stage of the Soviet Union on the road to communism in comparison with other states building communism. This doctrine, as argued in chapter 1, by definition imposed limits on the degree of diversity in other countries by providing justification for a claim that the Soviet model represented the manifestation of the operation of universal laws of socialist construction.

Until 1960 this doctrine relied on the distinction espoused by Stalin that the Soviet Union was the only state which had completed the construction of socialism while all the People's Democracies were still in the process of laying the foundations of socialism.¹ This distinction was changed in 1960 when the Soviet Union was defined as a country where 'socialism triumphed ... completely and finally' and that [was] 'successfully carrying on the full-scale construction of a communist society', while other countries of the socialist camp were 'successfully laying the foundations of socialism', with some of them having 'already entered the period of construction of a developed socialist society.' (*Trybuna Ludu* 6 December 1960, 2).²

Notwithstanding the claim of the universal significance of the Soviet experience and the self-proclamation of Soviet leadership, Khrushchev's recognition of a limited domestic institutional diversity established a more formal ideological basis for the right of communist countries to take into account their specific historical conditions, national features and traditions in the construction of socialism. This ideological conception meant that while the East Europeans were expected to conform to the Soviet model of socialism, the rules defining the legitimate political conduct were less rigid than in the Stalinist doctrine. To symbolise the new relationship based on the extension of substantial autonomy to former satellites and the transformation of the bloc into an alliance of socialist states Khrushchev renamed the erstwhile 'camp' as

¹The significance of these declarations was confirmed by inscriptions in the constitutions of Soviet bloc countries according to which the Soviet Union was the only state which defined itself constitutionally as a 'socialist state'.

²Statement of Representatives of Communist and Workers' Parties.

the 'socialist commonwealth' inherent in which was the notion of a free association of sovereign, independent states united by a pursuit of common good.

In an effort to further define the limits on East European autonomy Khrushchev also restated the principle of socialist internationalism as the basis for relations between socialist states. In the Declaration of the Conference of Representatives of Communist and Workers' Parties of Socialist Countries held in Moscow in 1957 socialist states declared that it was a moral right, and thus a legal duty to render mutual aid to protect one another from the danger of a return to capitalism and to intervene in each other's domestic affairs. Subsequently, the principles of internationalist solidarity and mutual assistance were formalised in bilateral treaties of friendship, cooperation and mutual assistance.

The renunciation of Stalinist methods of control required new methods of managing bloc relations, which would counterbalance disunifying tendencies resulting from greater political autonomy. The new Soviet strategy of ensuring a new basis for Soviet leadership and maintaining effective Soviet control over Eastern Europe entailed the formation of new institutional forms to regulate political, ideological, military and economic intra-bloc relations which replaced reliance on primarily informal ties in the Stalinist interstate system.

The main mechanism for elaborating a common line binding the Soviet bloc countries regarding key ideological and economic issues were, as mentioned in chapter 2, Conferences of Representatives of Communist and Workers' Parties of member-states of CMEA. In their role as the highest decision-making body they replaced the Cominform dissolved in April 1956. They were not convened on a regular basis.

Another part of the new institutional framework included multilateral organisations whose formal rules were designed to enable participation of Soviet bloc states in policy-making through consultations and collective decision-making. They were also

aimed at precluding member countries joining any other military or economic grouping. Thus they represented a more subtle way of achieving the old Stalinist policy of isolating of Eastern Europe from the effective political and economic influence of the West. In the military sphere these ideas of system-building were realised in the formation in May 1955 of the Warsaw Treaty Organisation (WTO) whose Political Consultative Committee was to coordinate foreign policies of socialist countries. Furthermore, by formally legalising the stationing of Soviet troops in Eastern Europe the WTO formally confirmed the Soviet military leadership in the region.

In the economic sphere the management of Soviet economic policy towards bloc countries was assigned to the CMEA which until then, as discussed in chapter 1, performed basically technical functions. The CMEA, however, assumed its functions of coordination of economic policies of its members only in 1956.

Initially, following the 4th Council Session in March 1954, it seemed that there would be an immediate radical departure from the existing principles and methods of operation of CMEA.¹ The Session concluded that the former policy of coordination of national economic plans by means of foreign trade agreements was not effective, and did not protect CMEA economies from autarkic tendencies and the development of similar production structures without a proper raw materials base. It also led to neglect of the agricultural and consumption goods sectors. The Session outlined a new strategy of cooperation aimed at more rational use of national resources and the development of specialisation and cooperation in industrial production to avoid parallel economic development. In order to achieve these goals the Session recommended changes in the methods of CMEA operation. These included the gradual strengthening of CMEA's organizational structure, and steps towards the coordination of national

¹Some sources suggest that in 1954 CMEA members came to an agreement as to the need to change the original goals, mechanisms and principles of regional cooperation and put them into revised statutes. However, their content has never been disclosed in detail (Cizkovsky 1970, 244 in Brabant 1989, 53). This information seems to be confirmed by *Sprawy Międzynarodowe* 1994:3, 130.

economic plans, in order to link the economic priorities of East European countries with the Soviet priorities (*Sprawy Międzynarodowe* 1994:3, 130).

Furthermore, a Soviet representative, Anastas Mikoian, submitted a proposal to base the coordination of the main directions of economic development of individual countries on their long-term investment plans, supplemented by negotiations on production specialisation in key branches of the machine building industry. The Session also discussed the necessity of the intensification of trade exchanges with capitalist countries within the framework of a common policy of CMEA members. Resolutions regarding coordination of investment plans and the development of trade with capitalist countries were subsequently adopted by the 5th Session, which also assigned the task of elaboration of specialisation agreements to a special commission (*Sprawy Międzynarodowe* 1994:3, 131).¹

This new approach to economic cooperation was abruptly halted, however. In March 1955, the Soviet Union requested East European national planning bodies to present the drafts of their five-year plans to Gosplan and to coordinate them not within CMEA organisations but within a Gosplan Working Commission. This request meant that the Soviet Gosplan would effectively assume a supervisory role over bloc economies. This request and its implementation meant in practice a rejection of the resolution adopted by the 5th Session regarding the coordination of investment plans. This decision was reminiscent of the practices in the first years of CMEA existence, when the Soviet Union arbitrarily assigned to individual East European countries targets for output and mutual deliveries (*Sprawy Międzynarodowe* 1994:3, 131).

The coordination of plans in this form was reduced to the simple balancing by Gosplan of production of main raw materials in individual bloc countries and their arbitrary allocation amongst the CMEA countries. This involved putting pressure on some countries like Poland to increase the deliveries of coal and other basic raw

¹The commission carried on its work until April 1956.

materials, without regard for its production capacity and balance of payments, while simultaneously ignoring their requirements for corn and other essential goods (*Sprawy Międzynarodowe* 1994:3, 132-3).

This strategy was a Soviet response to shifts in the economic policies of East European countries towards greater emphasis on the development of consumer goods sectors, as advocated by the New Course. These sudden changes in industrialisation policies resulted in a drop in demand for manufactured goods produced by East Germany and Czechoslovakia, the most economically developed CMEA countries. As a result their ability to purchase foodstuffs, fuels and industrial raw materials diminished and they began to experience problems with balance of payments. Moreover, with the easing of the Cold War some barriers in East-West trade were relaxed and countries which had goods which could be exported to the West, primarily foodstuffs and raw materials, began to divert them to Western markets. This diversion of trade in favour of Western Europe further contributed to imbalances in the CMEA market.

Soviet pressure on regional trade flows was an instrument for solving these structural problems and conflicts of interest in favour of maintenance and development of selected industries in some countries, in particular East Germany and Czechoslovakia, at the expense of others. At the 1956 Conference Khrushchev openly advocated the necessity of buying from Czechoslovakia and East Germany their surpluses of machinery and equipment.¹ These arbitrary decisions dictating the volume of production and exports were strongly resisted by countries like Poland, which were effectively forced to finance the development of industries in countries favoured by the Soviet Union (*Sprawy Międzynarodowe* 1994:3, 133).

Furthermore, at the 1956 Conference, as another solution to the shortages of some products within the bloc, the Soviet Union proposed joint financing of production of

¹Khrushchev justified assistance to these countries by referring to GDR and Czechoslovakia as 'show cases' of communist achievement whose standard of living should be comparable to that of Western Europe.

iron ore in the Soviet Union and Poland, and the coordination of production of agricultural products and other basic raw materials. The coordination was also to be conducted by Gosplan outside the CMEA framework.

Another Soviet proposal for intra-bloc division of labour which Khrushchev advanced at the 7th Session in May 1956 involved locating the major sectors of machine-building and chemical industries in Czechoslovakia and East Germany. To implement this strategy, the Soviet Union sought to transform the coordination of plans into an elaboration of balances of key commodities, which would be used to work out a scheme of developments of given types of production in individual countries to be directly transferred to their national economic plans (Bogomolov ed. 1987, 392). The underlying principle was that each country was to specialise in production in those economic sectors in which it already had a comparative advantage. The proposal had its merits from the point of view of the Soviet Union's own development plans of securing imports of machinery and equipment. A major consequence of this kind of production specialization for the less-developed bloc countries, would be the restriction of their opportunities for developing machine-building industries which were necessary for technological progress, thus consigning them to the role of producers of less technologically advanced products. In the long run such a policy of intra-bloc division of labour meant the preservation of existing structures and comparative advantages. The less advanced bloc countries must have fiercely resisted this proposal which would force them to abandon the comprehensive development of their economies because it was presently considered as 'mistaken' and abandoned (Ciamaga 1965, 215).

In the first few years following Stalin's death, CMEA functioning was thus subordinated to the requirements of Soviet economic policy and priorities in the region. It was not used as a consultative mechanism to elaborate a common strategy of intra-bloc division of labour but served as an instrument of pressure on some East European countries to adjust production and exports to the needs of other bloc

economies without regard to their economic capacities. It was also used to prevent redirection of 'hard' goods to Western markets which contributed to their shortages throughout the CMEA.

The CMEA's role changed, however, in 1956. The initial impetus seemed to have been provided by the 20th Congress of the CPSU and Khrushchev's secret speech condemning Stalin. According to Rozanski (1990, 64-6), following the speech, East European representatives began more firmly to resist Soviet attempts to subordinate the economic policies of their countries to Soviet priorities through the arbitrary allocation by Gosplan of plan targets to increase the production of selected raw materials without regard for their production capacities.

Already in May 1956 at the 7th CMEA Session there were first signs of a departure from the practice of involving Gosplan in the arbitrary imposition of economic targets on East European economies. It was also decided that the coordination of plans should not be linked to the Soviet priorities but should also involve the coordination of plans of individual branches of East European economies. Seven Standing Commissions were set up to address this task.

Further impetus to the implementation of these recommendations was provided by a reevaluation by the Soviet Union of its policy towards Eastern Europe in the wake of the 1956 Hungarian uprising and the Polish October. These protests against Stalinist methods of rule and repressive social and economic policies demonstrated that local communists would not be able to maintain political stability without relaxation of communist party control over society and improved economic conditions. Consequently, the Soviet Union was forced to recognize constraints on the exercise of its power imposed by the need for East European governments to build their own domestic basis for legitimacy based to a great degree on economic performance. This realisation marked 1956 as a turning point in Soviet economic policy towards Eastern Europe and the final departure from the policy of exploitation of its resources. In the wake of these upheavals the Soviet

government issued a declaration on 30 October 1956 concerning new principles of cooperation between the Soviet Union and other communist countries. In this document the Soviet Union admitted openly that its relations with its East European allies in recent years had not always been based on the principles of sovereignty and mutual advantage. Subsequently, the Soviet Union signed with bloc countries agreements which included cancellation of the outstanding debts incurred during the Stalin's rule and even extended credits to East Germany, Poland and Hungary to deal with social tensions (Ulam 1973, 593). An example of the new Soviet policy was the Soviet-Polish agreement which recognised as legitimate Poland's grievances in relation to the terms of trade agreements imposed on Poland in 1947. These agreements had forced Poland to sell to the Soviet Union coal at prices four times lower than those on world markets. In the 1956 agreement the Soviets compensated Poland by cancelling its debts. With regard to the CMEA the Soviet Union abandoned the notion of involving Gosplan in the regulation of East European economies and asked East European countries to set up special commissions to put forward proposals for the reorganisation of the CMEA (Sprawy Miedzynarodowe 1994: 3, 127-8).

The re-examination of the role of CMEA was also influenced by external factors. Tensions with China which began to openly challenge the Soviet Union's claims to political and ideological primacy in the communist movement, and the worsening of relations with Yugoslavia as a result of Krushchev's criticism of its model of socialism, prompted a search for additional means of strengthening the unity of the bloc. Furthermore, the signing of the Treaty of Rome on 25 March 1957 on the formation of a European Common Market highlighted the need to find appropriate ways of responding to the challenge of economic integration policies of the West.

In response to these developments, the 8th CMEA Session in June 1957 adopted measures signifying a change in approach to intra-bloc economic cooperation. The Session agreed on the need to elaborate directions of specialization and coordination of

production on the basis of coordination of long-term investment plans. It also adopted recommendations aimed at strengthening its organisational structure through expansion of the role of Standing Commissions (Ciamaga 1965, 217).

The increased importance of the CMEA in Soviet economic strategy was evident in decisions by the Conference of Representatives of Communist and Workers' Parties of Member-States of CMEA, which was held in Moscow in 1958. It was the first fully fledged economic summit of bloc countries since the late 1940s. A policy statement issued by this summit critically assessed the existing methods of CMEA cooperation. The Conference formulated for the first time as the main CMEA objective an international socialist division of labor (ISDL) based on specialization and the coordination of production (Ciamaga 1965, 228). The Conference adopted as the main mechanisms of cooperation the coordination of long-term plans for the basic sectors of the national economies and long-term trade agreements. The Conference guidelines were subsequently adopted by the 8th and 9th Sessions in 1958.

The formal status of CMEA as the organisation for economic cooperation was further confirmed by the adoption in December 1959 of its Charter. Until then CMEA had operated without a proper policy document, apart from the founding communique which did not elaborate on the purpose and the functions of the organization. The Charter identified ISDL as the basis for 'further deepening and improvement of economic cooperation' between the CMEA members and adopted the coordination of plans as the principal CMEA mechanism (Butler ed. 1978, 128).

The main items on the agenda of the Sessions in 1958 and in 1959 were the development of a common fuel and power base and specialisation in the machine building industry. These Sessions adopted recommendations that East European countries specialise in machine building, and other processing sectors. The Soviet Union committed itself to expansion of its output and the volume of its deliveries of raw materials and oil to other CMEA members (*Pravda* 25 March 1958, 5). Members

also agreed to construct a common power grid and pipeline transporting Soviet oil to Czechoslovakia, Poland, East Germany and Hungary (Ciamaga 1965, 215-24).

The results of these Sessions indicate that the Soviet Union had decided to continue the strategy of cooperation based on the exchange of Soviet raw materials for East European manufactures as an effective way of integrating East European economies into the Soviet market. This was achieved by the development in satellite countries of industries designed to meet Soviet import needs and dependent on Soviet raw materials and energy. This model of cooperation was based on the assumption of the continuing abundance of Soviet raw materials which were to be exchanged for East European manufactured goods produced on the basis of Soviet technology. Implicit in this model was a structural and self-perpetuating dependence of East European national economies on the Soviet Union. Their industries produced mainly for the Soviet market, and in the process they renewed their dependence on Soviet raw materials and energy resources. While this model was consistent with the natural complementarity between the Soviet Union and peripheral countries, it was not conducive to the development of complementary links between East European countries.

In the early 1960s another factor which came to have an impact on the CMEA was the economic situation of its members. Towards the end of the 1950s Soviet bloc countries embarked on the second wave of comprehensive development strategies. Party congresses which were held in 1958 announced economic policies which spelled out the return to an emphasis on industrial development based on mining, metallurgy and machine-building.

These strategies quickly proved unable to produce the expected rates of economic growth, especially in the more-developed states of Czechoslovakia and East Germany, which experienced a period of negative growth. This led to a search for alternative mechanisms of increasing productivity and transition to intensive growth. Two Conferences of Representatives of Communist and Workers' Parties of Member-

States of CMEA which were convened in November 1960 and June 1962 discussed the need to develop regional economic cooperation through production specialisation as a means of meeting the requirements of intensive economic growth and making the bloc more competitive in relation to the West (Ciamaga 1965, 226-8).

The ensuing negotiations resulted in the adoption in June 1962, by the 16th 'Extraordinary' Session, of the *Basic Principles of the International Socialist Division of Labor*. The *Basic Principles* was the first major programmatic document to provide the basis for a long-range program of economic cooperation among CMEA countries. The document nominated as the primary goal of the CMEA the realization of a regional division of labour based on comparative advantage. The international socialist division of labor was to contribute 'to the maximum utilization of the advantages of the socialist world system, to the determination of correct proportions in the national economy of each country, to the rational location of production factors with respect to the socialist world system, to the effective utilization of labour and material resources, and to the strengthening of the defensive power of the socialist camp'. The ISDL was seen as an instrument for raising the efficiency of production, achieving high rates of growth of national economies, and a gradual diminution of differences in levels of economic development (Butler ed. 1978,16).

The document contained concrete recommendations concerning regional specialisation and cooperation in those key sectors, which played a decisive part in technological progress, e.g. the engineering, machine-building and chemical industries, as well as in the development of raw materials, fuel and energy. The recommendations in the manufacturing sector and in the metallurgical industry suggested that the specialization decisions were based on the existing productive capacities and resource base in individual countries. The focus in the second area was on the rational utilisation of raw materials, the coordination of investment decisions, and the creation of joint enterprises (Butler ed. 1978, 20-5).

Some of the *Basic Principles* provisions referred to the allocation of resources within the framework of the CMEA from the perspective of the whole community. This, however, does not seem to be a sufficient reason to interpret them unequivocally as Brabant (1989, 66) did, as prescribing adjustment of the developmental priorities of individual governments to the common goals determined from a bloc-wide perspective. The *Basic Principles* were, in fact, very careful not to give an explicit endorsement of the idea that national interests were subordinate to the goal of attainment of an optimal regional economy. The document devoted a whole section to the postulate that the ISDL should combine the development of optimal regional specialization with the preservation of the integrity of each socialist country's national economy, entailing the development within its borders of a rational complex of mutually complementary branches of the economy (Butler ed. 1978, 27-9).¹ Furthermore, recommendations concerning the directions of the division of labour put a very strong emphasis on the expansion in less developed countries of sectors critical for technological progress (Butler ed. 1978, 23).

By advocating development of specialisations on the basis of the existing production or raw material base *Basic Principles* expressed recognition of the economic inefficiency of strategies leading to parallel industrial development. Despite emphasis on regional specialization according to comparative advantage as the CMEA's objective, the program did not, however, propose a viable mechanism to achieve these objectives. In accordance with the commitment to centralised planning as the basic principle of socialist economies the selection of main specialization directions and determination of the proportions and structure of mutual trade between CMEA members was to be achieved by the coordination of national production and

¹The *Basic Principles* defined as an optimal national economic complex a multi-branch structure of interlinked and mutually complementary branches of the national economy combining optimally industry and agriculture, the extractive and processing sectors, the production of the means of production, and the production of consumer articles. Its development would be primarily based on the development of the domestic energy and raw materials industries on the basis of the maximal use of their own resources, and whose aim would be growth in those sectors which were the basis of technological progress in the national economy, especially machine-building and the chemical industry (Butler ed. 1978, 28).

investment plans in selected sectors with financial instruments playing passive role in this process (Butler ed. 1978, 17-8).

Moreover, the program reflected assumptions that planned economic development guarantees a high and steady rate of growth which ensures the achievement of objectives beyond the reach of wasteful market economies. The belief in the economic capacity of the Soviet Union was implicit in claims, advanced at that time by the CPSU leaders, of the imminent transition to communism and the overtaking of capitalism in economic terms in 20 years. This utopian belief was advanced at the Conference in November 1960 when Khrushchev claimed that in 1965 the Soviet Union would surpass the USA in volume of production and by 1970 in per capita output and confidently predicted that 'mankind would eventually dump capitalism on the garbage heap' and that socialism would triumph (*Trybuna Ludu* 6 December 1960, 2). In the same spirit, a year later, the 21st Congress of the CPSU announced that in the Soviet Union 'socialism triumphed completely and finally' and adopted its third program for the building of a communist society in the Soviet Union within the next 20 years (*Pravda* 2 November 1961, 1-9).¹

In practice the strategy outlined in the *Basic Principles* was not implemented. Barely a few months later, in September 1962, the Soviet Union launched a new campaign aimed at the transformation of the CMEA into a supranational body invested with sufficient decision-making powers to draw up a common plan for the member countries.

The *Basic Principles* only obliquely referred to the concept of a single plan to regulate economic cooperation between communist countries with the normative statement that '[t]he consolidation and expansion of economic links of the countries of socialism will further the development of the objective trend pointed out by V.I. Lenin toward the creation in the future of a world communist economy regulated by the

¹ The Program of the Communist Party of the Soviet Union (*Pravda* 2 November 1961, 1-9).

victorious working people according to a uniform plan' (Butler ed. 1978, 16). The strategy outlined in an article signed by Khrushchev (1962) was, however, more specific. It called for the establishment in CMEA of a single planning organ, entrusted with formulating the division of labour among its member states, empowered to elaborate common plans and to decide organizational matters. The proposal involved coordination of long-term plans for key sectors, including planning of investment projects from the point of view of meeting the requirements not only of each country, but the whole CMEA, setting up inter-state associations on a commercial and parity basis, with fixed shares of capital, for making particular products and increased capital lending in the Soviet bloc.

Khrushchev's proposal was approved at the 1962 November Plenary Meeting of the Central Committee of the CPSU. Subsequently its propositions were supported by numerous economic analyses in authoritative Soviet journals pointing to the inevitability of merging the economy of all the countries belonging to the world socialist system into a single, well-knit complex with the coordination of national economic plans regulated by a joint planning body as the main means of developing and expanding labour division among the socialist countries.¹

The idea of the transformation of the CMEA into a supranational planning authority was supported by the establishment of the Executive Committee consisting of deputy prime ministers of member countries, which was to be a planning center with region-wide responsibilities. The main function of its permanent organ, the Bureau for Collective Cooperation in Planning was the elaboration of energy and raw material balances for the entire CMEA and the determination on that basis of areas of specialisation from a bloc-wide perspective (Ciamaga 1965, 51-2).²

¹ See for example Belayev 1963, 15-20; Alekseyev 1962, 51; Kharkin 1962, 19-20.

² In the Bureau each member country was represented by a Deputy Chief of its state planning agency.

In economic terms, supranational economic policy based on these principles meant that specialisation would be based on the existing comparative advantages. Consequently, the less industrialized nations such as Romania, would play the role of providing the more advanced countries with the raw materials and agricultural products for their further industrial expansion. Furthermore, a single planning executive body for all CMEA countries would give to the Soviet Union the effective direct means of controlling the economic policies of bloc countries and encouraging specialisation which would be most beneficial from the point of view of its priorities.

Fears for their rights to determine economic policies and ensure comprehensive development led to an open resistance to this project by the less advanced member countries and to the ultimate rejection of the scheme.¹ The main opponent was Romania which expressed its opposition openly at the June 1962 and July 1963 meetings of party leaders of CMEA countries and in a declaration of April 1964. The statement of the Rumanian party demanded recognition of 'a sovereign right of each socialist state, to elaborate, choose, or change the forms and methods of socialist construction' as well as 'the exclusive right of each party to work out independently its political line, its concrete objectives and the ways and means of attaining them.' Romanians equated control of the national planning system with the sovereignty of the state, and the assumption of control of the state plan by an independent supranational body, was for them tantamount to the loss of national independence.

The success of Romania's resistance was largely due to the Soviet Union's vulnerability in international affairs, which made possible the exercise of a certain measure of independence by its satellites. This vulnerability was due to a setback to the Soviet Union's policy experienced during the Cuban missile crisis, and the threats to the unity of the bloc posed by the widening Sino-Soviet rift and Albania's independent stance. The Soviet Union clearly wanted to avoid additional tensions in

¹ Initially, the idea found support among the leaders of the more industrially developed CMEA members, such as East Germany, Czechoslovakia and Poland (*Trybuna Ludu* 6 January 1962, Jaroszewicz 1962, 5; Ciamaga 1965, 53).

the communist movement and making itself open to accusations of seeking to control the organisation (Brzezinski 1979, 442-7). The failure of this scheme thus highlighted the growing limitations on the exercise of Soviet power to dictate foreign and domestic policies to its East European allies.

1965-1984: Soviet-East European relations. Soviet objectives in the region.

In the mid- 1960s external factors determining Soviet - East European relations were the easing of East-West tensions and the Soviet Union's increasing rivalry with China, which continued to challenge Soviet primacy in the communist movement. A spectacular act of defiance occurred when in March 1966 China for the first time did not send its delegation to the CPSU Congress. The intra-bloc factors entailed disunifying tendencies caused chiefly by the attempts of Romania and Poland to exploit the differences between China and the Soviet Union, and to pursue independent policies towards Western countries and to join Western economic institutions.¹ The Soviet Union sought to contain these growing regional pressures for increased national autonomy among CMEA members and ensure adherence of East European states to the Soviet line in intra-bloc and external policy by relying on the existing institutional framework for the management of inter-state relations.

There were, however, new economic factors which had an impact on intra-bloc dynamics and which forced the Soviet Union to re-examine its traditional approach to intra-bloc economic relations. The first one was a concern with the slowing down of the rates of growth of production and productivity and the increasing gap in terms of quality and technological standards between the Soviet bloc and Western products.

¹ In 1966 Ceausescu declared that all military blocs should be liquidated and asserted his country's determination to trade and develop friendly relations with all countries, irrespective of their social systems. Subsequently he put forward a proposal for the convening of a pan-European security conference. In 1967 Romania established diplomatic relations with the Federal Republic of Germany. Poland was primarily interested in the expansion of relations with the West and participation in international economic organisations.

These symptoms of diminishing effectiveness of the economic system cast doubts on previous claims of the superiority of 'scientific' methods of management.¹

The Soviet Union's response was the introduction in bloc countries of major economic reforms whose aim was a transition to an intensive growth based on the increased productivity of labor and capital. Central to these reforms were the reorganization of the system of management of the national economy, the broadening of the operative and economic independence of enterprises and increased reliance on economic incentives (*Pravda* 30 September 1965, 1-3, *Pravda* 6 May 1966, 4; Miroshnichenko 1967, 3). The reformers also envisaged structural changes in the economies including the accelerated development of sectors which were to increase labor productivity, accelerate technical progress, improve quality of products and reduce production costs.

The reforms included also foreign trade management, in particular the extension to individual producers of the right to engage in foreign trade transactions. However, the reform in the Soviet Union was the most conservative. This lack of attention to foreign trade stemmed from a Soviet failure to appreciate the potential of foreign economic relations as a factor contributing to the acceleration of economic growth. Foreign trade had never played a decisive role in the Soviet economy. The share of foreign trade in total economic output was insignificant and there was no perceived need to improve the effectiveness of foreign trade which could call into question the basic principles of a centrally administered economy.

Another economic consideration was the question of the economic viability of the existing model of cooperation. Since the late 1950s the intra-bloc trade exchanges were a function of the relatively unconstrained availability of cheap fuels and raw materials from within the CMEA and comprehensive industrialization based on steady

¹For instance, in October 1964, the plenary session of Central Committee of the CPSU called for the more rational utilisation of productive forces. Brezhnev in his report to the 23rd CPSU congress in 1966 warned that '[t]he forms and methods of the management, planning and economic stimulation of production did not conform to the new, higher level of productive forces in the country and had begun to hamper their development' (*Pravda* 30 March 1966, 2-9).

increases in the supply of capital and labour. With problems with productivity this model was becoming perceived by the Soviet Union as too costly because of the relative unprofitability of the exports of raw materials. These concerns were first addressed by Soviet economists from the prestigious Institute for the Economy of the World Socialist System who, in a report written in 1966, urged changes in the 'unfavourable structure of Soviet foreign trade'. Another report argued that it was substantially more expensive to import machinery from Eastern Europe than to produce it domestically (Stone 1996, 36-7).

These economic considerations did not have an instant effect on Soviet decisions regarding the CMEA model of exchanges or its operation. They did, however, lead to proposals to reform CMEA mechanisms and to elaborate a common strategy for the development of economic cooperation. The 20th and 21st Sessions held in 1966 and in December 1967 focused on the re-evaluation of the role of currency and financial relations and economic accountability in economic cooperation and their compatibility with the devolution of authority over decisions in the domestic economies. The Sessions addressed these issues in respect to the system of the multilateral settling of accounts in convertible rubles among the CMEA member countries, the establishment of the International Bank for Economic Cooperation and the more effective utilization of instruments of indirect coordination to develop specialisation and cooperation of production (Faddeyev 1969, 5). A Dresden meeting of leaders of the parties and governments of CMEA in March 1968 concluded that 'there are many unutilized reserves within the framework of the CMEA, numerous possibilities for extending economic cooperation' and proposed to convene a conference at the highest level on economic questions including CMEA economic cooperation (Volgin 1968, 3).

Both domestic and CMEA reforms based on the introduction of economic instruments were however halted in the wake of the invasion of Czechoslovakia in 1968. The reforms in Czechoslovakia, in the political sphere, were aimed at the limitation of party influence on government, the separation of party and state

functions, and the increased democratization within the party. Reformers also questioned Czechoslovakia's commitments to the Warsaw Pact and advocated a foreign policy more independent of the policies of the Soviet Union. In the economic sphere criticism was levelled at the Stalinist economic model and strategy, in particular the high share of investments devoted to the defence industry. Reformers envisaged changes in the system of management of the economy involving substantial increase in the independence of individual enterprises at the cost of central planning authorities and restriction of the scope of public ownership of the means of production by encouragement of private investment. With regard to foreign economic relations reforms presented a threat to economic ties within CMEA, as they questioned the profitability of economic relations with other bloc countries, in particular the Soviet Union, and proposed the reorientation of Czechoslovak trade towards the West.

If implemented, the process of democratisation and economic reforms would have produced a model of socialism distinct from the principles of the Soviet model of socialism. Such aspirations thus posed a direct challenge to the legitimacy of the Soviet system as well as a threat to the Soviet Union's ideological and political supremacy in the region.

In July 1968, shortly before the Soviet invasion of Czechoslovakia, Brezhnev restated Soviet position that socialist transformations in individual countries might assume different forms in keeping with varying levels of economic development and with different national characteristics and conditions. He warned, however, that the diverse methods of "constructing the new society" could not undermine the common fundamental principles of social-economic and political systems, in particular the leading role of the party and public ownership of the means of production as this would amount to the abandonment of the communist cause. He stated:

Individual socialist countries set about constructing new social systems in different conditions, at varying levels of economic and cultural development and with different national characteristics and traditions. All this leads to the circumstance, that even with common economic and socio-political

foundations, the concrete ways to build socialism and the concrete forms that socialist social relations assume can differ. . . . But, with all this, the socialist countries are united by common principles and a socioeconomic and political foundation common to all of them. Despite all the diversity of forms and all the specific national characteristic of each country, this foundation remains immutable because if it does not exist, socialism does not exist. Socialism does not and cannot exist without public ownership of the means of production. . . . Socialism does not and cannot exist without the leading role of the communist party, armed with the ideas of Marxism-Leninism and proletarian internationalism (*Pravda* 4 July 1968, 1-2).

The subsequent Soviet-led military intervention of Soviet bloc countries in Czechoslovakia was justified by the principle of socialist internationalism in the shape of the Brezhnev Doctrine of 'limited sovereignty'. According to this doctrine communist parties were responsible not only to their own working class but also to the working classes of the socialist commonwealth as a whole for the preservation of the 'achievements of socialism' in their respective countries (Kovalev 1968, 4). Accordingly, the Soviet Union and other socialist countries had an internationalist duty to defend the fundamental interests of the socialist commonwealth and stop the policies of the Czechoslovakian party which were described as 'shattering the stability of the socialist system and encouraging the return to the capitalist path.' (*Pravda* 22 August 1968, 2).¹

The pressure for the consolidation of the Soviet bloc's 'unity and cohesion' and the maintenance of Soviet influences in Eastern Europe in the wake of the invasion of Czechoslovakia was the primary intra-bloc political factor which had an impact on Soviet policy in Eastern Europe and renewed efforts at economic cooperation within CMEA throughout the 1970s. External political factors which influenced the policy shift towards integration were detente and the Soviet Union's rivalry with China in the communist movement, which necessitated finding additional means of securing unity within the bloc. The pursuit of East-West detente, in particular, required the

¹ Editorial-'Defense of Socialism is the Highest Internationalist Duty' in *Pravda* (22 August 1968, 2-3) justifying the use of troops.

coordination of strategies of bloc countries in view of the prospects for the rapid expansion of economic exchanges.

The improvement of political relations with the West was a result of the pursuit of a foreign policy of 'peaceful coexistence' and detente with the West initiated at the end of the 1960s. Brezhnev's leadership saw this strategy as enabling the Soviet Union to play the part of a global superpower, and to increase its relative military strength. The policy was also motivated by the perceived threat from China and by the immediate needs of the Soviet economy, including securing advanced technology available only in the West. The policy, which continued despite the invasion of Czechoslovakia, was made possible by the readiness of the West to reduce tensions by entering into negotiations on arms limitations and settling outstanding political questions in Europe, and its interest in expansion of trade relations. Detente did not however affect the Soviet perceptions of the strategic and political importance of Eastern Europe as it did not mean an abandonment of fundamental ideological differences.

Soviet policy towards Eastern Europe was also affected by its domestic economic priorities and the realisation that the maintenance of the traditional model of intra-bloc exchanges of Soviet raw materials and energy for manufactured products from East European countries had ceased to meet the requirements of the Soviet economic policy and that CMEA was becoming an increasing financial burden for the USSR.

Domestically, the perceived need to accelerate scientific-technological progress, to modernise production and improve efficiency in the use of energy and raw materials, combined with difficulties in satisfying these needs by imports from the CMEA forced the Soviet Union to increase imports from Western countries. This required an increase of exports of raw materials and energy to these countries which in turn put constraints on the possibility of meeting growing East European demand for these products.

Furthermore, the Soviet Union began to perceive the maintenance of the traditional model of intra-bloc exchanges as increasingly expensive as easily accessible deposits in the European part of the Soviet Union were gradually depleted and the need to invest in the development and transportation of raw materials from Siberia raised the costs of these materials.¹ Moreover, the perception of the unprofitability of exchanges was enhanced because East Europeans paid for their imports with manufactured products below the technological standards and quality of Western products.

The ideal long-term solution of these tensions between Soviet requirements and intra-CMEA trade was a transformation of the structure of exchanges to one relying on mutual exchanges of manufactured products and reduction of the share of energy and raw materials in Soviet exports to CMEA. As a temporary solution the Soviet Union pursued two courses of action. Firstly, it demanded an improvement in the quality of manufactured products imported from Eastern Europe. Secondly, it presented the CMEA countries with the arguments that raw material exports are less profitable than machinery exports and therefore they should contribute to the cost of producing of raw materials. Consequently, in the course of the trade negotiations for 1971-75 five-year plan, which began in 1968, the Soviet Union made it clear that any future increases in raw material and energy exports would depend on corresponding East European investments on Soviet territory in the development of the raw material and fuel sectors and participation in transportation expenditures. In line with this policy, in 1971 the Soviet Union signed with other socialist countries a number of agreements concerning their participation in the extraction of raw materials and in the development of transportation facilities by means of capital investment (*Pravda* 19 May 1971, 2-3).

Soviet foreign policy towards Eastern Europe which sought to achieve these political and economic objectives assumed the form of a comprehensive integrationist program aimed at establishing new forms of subordinating Eastern Europe, while at

¹A report published by the Institute for the Economy of the World Socialist System (IEMSS) in 1971 estimated that Soviet investments in raw material production would have to rise by 250 to 300 percent between 1970 and 1980 (Bogomolov et al. 1971 quoted in Stone 1996, 37).

the same time ensuring their economic viability and decreasing Soviet costs of maintaining the CMEA.

In the ideological sphere, the methods used in this drive towards bloc cohesion included insistence on systemic uniformity and the universal validity of the Soviet model of socialism. Conformity to the Soviet model was justified by a reference to the doctrine of the universal laws of the transition to communism prescribing the necessary features of socialist development, and a parallel Soviet claim of the right to interpret these laws. The Soviet Union asserted its ideological authority on the basis of a new concept of the 'developed socialist society' or 'real socialism', allegedly 'the highest stage of social progress ever achieved by mankind' whose construction the Soviet Union had apparently completed. By contrast, other socialist countries were still at different stages of laying the foundations of socialism, with some in the process of building of a developed socialist society. As, according to Marxism-Leninism, there was only one scientific model of socialism, common to all countries, by definition, the Soviet Union's more advanced stage in the construction of communism meant that the specific features of the Soviet model represented a more mature manifestation of the general laws (Terry in Terry ed. 1984, 243). The firmer assertion of Soviet supremacy in the bloc was also evident in symbolic terms, such as the replacement of the term 'socialist commonwealth', adopted by Khrushchev, by 'socialist community' which lacked the connotation of equality.

This concept of a 'developed socialist society' became a firm part of official doctrine after 1966 when the notion of full-scale construction of communism proposed by Khrushchev was dropped. By presenting the 'developed socialism' as only the first phase of the relatively long-term historical period of transition to communism it signalled a retreat from the utopian goals of the 1961 program.¹ The

¹The ideological concept of 'really existing' socialism was also a response to the theoretical challenges of Eurocommunism which emerged in the aftermath of the invasion of Czechoslovakia. Western communist parties called into question the Soviet model of socialism itself and rejected the right of the Soviet Union to dictate ideology and policy to the international communist movement.

doctrine defined the 'legitimate' socio-economic features of a developed socialist society and prescribed the permissible limits of economic management reform, using the euphemism 'perfection of the economic mechanism'. According to the doctrine economic reformers ought to focus on 'rationalisation' or 'streamlining' of economic administration, not on measures such as price reforms or decentralisation which could lead to a 'socialist regulated market economy' (Terry in Terry ed. 1984, 240-3).

In the political sphere, the Soviet strategy of alliance management included the strengthening of the traditional institutional structures guaranteeing Soviet supremacy, such as the Warsaw Pact military structure, its Political Consultative Committee, and the introduction of new forms of consultations in the form of regular meetings of East European party leaders with Brezhnev during summer holidays. Some of the bilateral security treaties with individual East European states were also renegotiated or renewed.

With regard to domestic economic policies, out of fear that economic reforms could undermine the political underpinnings of the system, the Soviet Union halted the momentum for fundamental changes in the system of planning and management. The return to a traditional centralised model manifested itself in the abandonment of economic reforms in Eastern Europe or their limitation to measures which would not encroach upon the control over the economy by the party. The New Economic Mechanism inaugurated in 1968 in Hungary was closely monitored and the Soviet Union intervened in its implementation by pressure to remove from the positions of influence the most reformist members of the communist party.

As an alternative and politically safer way of improving productivity and satisfying consumer demands, the Soviet Union encouraged a new economic strategy relying on the rapid increase of imports from the West. The assumption was that by gaining access to Western finished products, borrowing from the West for domestic investments and importing of Western capital equipment and technology to modernize bloc economies it would be possible to ensure sustained economic growth and create a

modern export-oriented sector capable of improved competitiveness on world markets and paying off the debts without radical reforms of the system of economic planning and management. The announcement by the Soviet Union at the 24th the CPSU Congress in March 1971 that it would pursue such an import-led growth strategy was subsequently repeated by other Soviet bloc countries, obviously with Soviet consent. Apart from indirectly strengthening political cohesion of the bloc by avoiding potentially disruptive reforms, the rapid expansion of East-West trade must have also been seen as a means of ensuring the improvement of the quality of goods exported by East European countries to the Soviet market. Soviet leadership must have also expected that direct and indirect transfer of technology would improve the quality of Soviet products and ultimately lead to a reduced reliance on raw material exports.

In intra-bloc economic relations the Soviet Union sought to strengthen its ability to oversee the reform of the model of cooperation by introducing a new strategy called 'socialist economic integration' (SEI). SEI was announced as the basic policy of CMEA members at the 23rd 'extraordinary' Session of CMEA in April 1969 attended by party and government leaders. It was designed to improve intra-bloc structure of trade and ensure the contribution of Eastern Europe to Soviet economic priorities. SEI was subsequently endorsed by the Conference of Communist and Workers Parties in June 1969. The Comprehensive Program (the CP), which formed the basis of this strategy and set forth the specific mechanisms of SEI and a time schedule for the implementation of cooperative measures in the 1970s and 1980s, was adopted by 25th Session in July 1971.¹

Its adoption followed a period of negotiations involving radically opposed conceptions of CMEA integration.² Poland, Czechoslovakia and Hungary proposed moderate market-type reforms entailing the reform of domestic pricing

¹The full title was: The Comprehensive Program for the Intensification and Improvement of Cooperation and the Development of Socialist Economic Integration of CMEA Member Countries (Butler ed. 1978, 36-120).

²For summaries of East European views on CMEA reform during the period, see Inozemtsev (1969, 4), Schaefer (1972, 3-38), Hutchings (1983, 80-83), Stone (1996, 122-3).

systems towards convergence in the CMEA countries, the introduction of new settlement arrangements enabling multilateral clearing, gradual liberalisation of trade through the introduction of exchange of non-quota goods and the expansion of the rights of enterprises to conduct trade with foreign partners. Poland's proposal was the most radical, containing suggestions for a radical reform of the CMEA financial mechanisms including a reform of its pricing system, a gradual transition to the convertibility of currencies, the introduction of realistic exchange rates (thus enabling cost comparisons to be made between individual countries), and granting substantial powers to the International Bank to regulate national currency, price and budget policies.¹ The Bank was also to fulfil functions similar to those of the International Monetary Fund's and was to be authorised to negotiate debt rescheduling in return for adjustment programs. The Polish proposal also included penalties if a country developed a specialisation outside the CMEA agreements. Furthermore, to facilitate liberalisation of trade, Poland suggested the creation of reserve funds of goods outside the annual trade protocols (Rozanski 1990, 252-9).

East Germany, Bulgaria and Romania opposed these reforms completely or on a number of points. In general terms they were in favour of the preservation of the existing arrangements based on plan coordination, long-term agreements for the raw materials and the 'stop' pricing system. The three countries were also opposed to the introduction of convertibility of currencies, arguing that such a measure was impossible in the conditions of shortages. Their opposition to liberal reforms reflected their reliance on the central, quantitative planning in the management of their economies as the general reform of CMEA mechanisms proposed by the most reformist countries was incompatible with central planning by direct controls.

East Germany adopted the most conservative view, urging member countries to concentrate on the development of cooperation in specific sectors rather than press for

¹Poland apparently believed that economic cooperation based on market instruments would undermine Soviet control over East European economies.

the reform of monetary and foreign trade mechanisms. Bulgaria, however, demonstrated a slightly more flexible position by accepting some elements of monetary reform and liberalisation of trade with regard to consumer goods. Its position included support for the reform of domestic pricing systems to make them comparable with other CMEA countries and the expansion of commercial credit in CMEA exchanges (Stone 1996, 122-3).

East European positions were consistent partly with the principles of their economic reforms, and partly reflected their commercial interests. For example, the Polish proposals regarding the introduction of non-quota trade would have led to the improvement of the bargaining position of East European importers as they suggested that energy and raw material exports would continue to be guaranteed in long-term contracts whereas most other goods would be agreed only in general terms. This would allow East European negotiators to determine the internal composition of exports most beneficial from their point of view while making it difficult for the Soviet side to link raw material and oil exports to imports of specific consumer goods (Stone 1996, 120). A sudden transition to trade in energy and raw materials outside bilateral agreements would mean that East European countries would not be assured of their stable deliveries, and would also lose their advantageous terms of trade.

The Soviet proposal appeared to affirm East European reformist measures. However while using the reformist vocabulary, it imparted to these words a meaning different from that attached to them by the reformers. For example, it seemingly endorsed realistic exchange rates, gradual progress towards convertibility, and expansion of non-quota trade. However the liberalisation of trade was qualified by a condition, which was in practice unattainable, that the countries should first ensure a surplus of exchanged goods. Similarly, provisions for the reform of financial mechanisms were effectively rendered meaningless by the insistence on the preservation of the traditional functions of the transferable rouble. The 23rd extraordinary Session in April 1969 made clear the possible role of commodity-money

instruments by stating that, 'Envisaged intensification of the role of commodity-money relations by no means implies a turn to the conditions of market relationships, which are incompatible with the planned economies of the fraternal countries'.

The proposal also outlined the principles, procedures and organizational, economic and legal prerequisites for the establishment of direct ties among ministries, departments, economic organizations and research institutes, and for the formation of international economic organizations of CMEA member countries.¹ It was, however, clear from the ensuing discussions, that the term 'direct ties' was used to describe direct links established by administrative orders and subjected to the directives of state planning commissions, not the operation of independent enterprises with the full range of legal rights to establish relationships with partners in other CMEA countries outside the state foreign trade monopoly. Their functions were to be limited to the implementation of decisions taken at a higher level within the framework of planned deliveries and bilateral or multilateral agreements, but they were not entitled to make their own decisions about trade or production and research, or to play a central role in plan coordination or in the formulation and implementation of concrete aspects of economic integration. Thus, in the Soviet conception of integration the involvement of enterprises in the process of cooperation was seen as a means of complementing central planning and making it more effective through the development of contacts at a lower level (Stone 1996, 136-7).

Thus despite the reformist rhetoric, the Soviet Union's concept was not really a move towards market-type principles, but more a matter of planned integration. The meaning of reformist proposals was understood in the context of a centrally planned economy where the instruments of indirect coordination were subordinate to planned instruments. In line with this reasoning, while the Soviet Union agreed in principle that direct links should expand in the areas regulated by long-term agreements, it maintained that the decision about cooperation should be taken by the planning organs

¹Communique on the 24th Session of the CMEA (*Pravda* 15 May 1970, 1).

of each country. Thus, the Soviet Union in reality opposed non-quota trade and the expansion of direct ties in the meaning understood by reformers because they were incompatible with its economic system based on centralised commands. As the permanent Soviet representative to CMEA, Lesechko (1969, 4), stated the Soviet intention was the reform of CMEA by means of the introduction of new methods of joint planning which would become an effective instrument of the elaboration and implementation of the agreed economic strategy of CMEA members in selected sectors.

This conception of integration was unanimously accepted as the basis for further negotiations at the 23rd Session. It set the permissible framework of CMEA reform and with the Soviet delegation controlling the agenda of discussions of working groups and their outcomes it was adopted with no substantial changes (Stone 1996, 130-3).

The final version of the Comprehensive Program defined SEI as a process of coordination of economic policy directed by states, aimed at the formation of permanent, structural ties in the principal branches of the economy, sciences, and technology of participating nations leading to mutual accommodation of their economies, and the formation of modern, highly effective structures of their national economies; the gradual coming together and equalizing of the levels of their economic development (Butler ed. 1978, 37).

According to the CP, integration was to contribute to the rational utilization of productive and scientific and technical resources of the CMEA countries, the attainment of greater efficiency in the region-wide allocation of resources, the accelerated development of the fuel and power base in the CMEA countries and thus to the solution of major fuel, power and raw materials problems, the introduction of advanced technological processes in the key sectors of the national economy, the attainment of the highest scientific and technical standards and an increase in labour productivity (Butler ed. 1978, 39).

In the Soviet economic literature integration was hailed as a 'qualitatively new phase' of the development of economic relations in the Soviet bloc directed toward the attainment of a higher level of the international socialist division of labour (Faddeyev 1970, 2). Lesechko (1970, 4) and Bogomolov (1987, 293-6) identified as the main feature of SEI, distinguishing it from the previous stages of cooperation, the internationalisation of cooperation. This was to result from an increase in joint undertakings involving increasingly bigger shares of national resources such as joint enterprises, international economic organisations and cooperation in international finance and banking. The expectation was that this would result in an increase in a share of specialised products resulting from joint production activities in intra-CMEA exchanges.

According to the CP, the primary role in the implementation of CMEA objectives was to be played by planning instruments and central planning bodies having ultimate responsibility for plan coordination. The main method of cooperation remained the coordination of five-year national economic plans focused on the coordination of production and investment decisions in selected sectors. Coordination was to rely on bilateral and multilateral consultations during which countries were to exchange information about their projected supply and demand for particular products, and available resources and production potentials, and agree on integration projects, resulting in adjustments in the national economic plans. The intention was that new procedures of plan coordination would ensure that coordination would precede the adoption of national economic plans and that integration projects would be then incorporated in the national economic plans. The program postulated that the 'coordination of decisions on basic problems of cooperation will be completed before the draft five-year plans are submitted to competent agencies of the countries for confirmation.' (Butler ed. 1978, 51).

The CP outlined a number of procedures to ensure the fulfilment of commitments arising from the joint planning activities. For instance, plan coordination results were

to be subsequently ratified in inter-state agreements such as long-term trade protocols and agreements on specialisation and cooperation specifying mutual obligations, conditions and the material liability of the parties for failure to fulfil their obligations (Butler ed. 1978, 50; Bogomolov ed. 1987, 425).

Another major innovation in the CMEA mechanism aimed at an increase of its effectiveness was joint planning based on economic calculation of the effectiveness of cooperation. Joint planning included the production specialization and cooperation in key economic branches and scientific and technical cooperation and the joint investment projects in developing raw material resources and energy and priority sectors such as mining, engineering, agriculture and transportation (Butler ed. 1978, 75-7). The activities of participating countries were to be conducted primarily at the level of ministries, associations and major enterprises. They were to be coordinated and managed by international economic organisations, affiliated with CMEA, set up to promote specialised cooperation at the enterprise level. Because of the type of organisations involved and the areas of cooperation, these were regarded as instruments for supplementing the coordination of plans. At the same time, joint planning was seen as a more advanced form of planned cooperation, as it represented a form of joint management by organisations from different countries (Inozemtsev 1969, 4; Rodionov 1971, 2).

The CP also proposed new institutional forms of coordination of economic policies of member countries, which were to expand the time horizon of joint planning activities. These forms included bi- and multilateral policy consultations on basic questions of national, regional and international economic policies, and economic forecasts of economic and scientific-technical trends in national and world economies. They were to be taken into account in the formulation of strategies for the main sectors of the national economies and provide a basis for long-term plans (Butler ed. 1987, 44-9).¹

¹ Consultations were to be held regularly at all decision-making levels depending on the character of the questions.

The CP gave a rhetorical impression of recognising the need for improvement in the monetary-financial mechanism and the credit system. They were to play an increased role in CMEA cooperation, in particular with regard to the servicing of new types of cooperation: joint planning, the development of direct ties among economic organisations and enterprises, the construction and operation of joint enterprises and activities of international economic organisations. Sections 6 and 7 in the CP specified deadlines for the improvement of price formation, the development of a system of multilateral clearing accounts and credit relations by 1980 and a gradual changeover to a system of convertible currencies. The CP also proposed the establishment of the International Investment Bank (IIB) which was to provide medium and long-term credits to finance joint investment projects (Butler ed. 1978, 73-4).

The CP also introduced changes in the system of bilateral trade agreements aimed at an increase in the levels of trade including the introduction of mutual exchanges outside the highly centralized bilateral barter agreements and allowing more flexibility within the framework of the agreed volume of goods.¹

This part of the program looked radical on the surface, as it proposed the gradual removal of barriers to cooperation stemming from the dysfunctional aspects of the mechanism: bilateralism, inconvertibility of currencies and the pricing system. If fully implemented, the logical outcome of these measures would be a de-centralised model of cooperation relying on market instruments and an active role for enterprises, with the role of planning limited to strategic decision-making, creating the conditions necessary for multilateral cooperation, the calculation of effectiveness of integration projects and the liberalisation of trade.

¹Only the basic types of goods, representing 50 to 60 percent of mutual trade, were to be covered as before by fixed quantity quotas established in long-term agreements. For some goods, quotas were to be established solely in terms of value. The specific nomenclature of such goods and other terms of delivery were to be agreed between the parties involved. For the remaining goods no quotas were established, and mutual exchange of these goods did not need to be balanced on a bilateral basis. The nomenclature of such goods, their prices and other conditions were the subject of agreement between foreign trade organisations in accordance with the general conditions and regulations governing intra-CMEA trade (Butler ed. 1978, 64-66).

The actual meaning of these proposals was, however, the same as in the original Soviet concept of integration. It was to be understood in the context of the fundamental principle underlying the CP provisions of the 'organic' combination of joint planning activities with the 'planned' use of commodity-money relations (Bogomolov ed. 1987, 348). Soviet commentators stressed that integration processes within CMEA were to grow in a planned fashion and the instruments of indirect coordination were to remain subordinate to planned instruments. This was the manifestation of the proposition prevailing in Soviet economic theory and practice, that the characteristics of currency and financial relations and their functions must be always considered in the context of their relation to planning principle in the management of economy, that is they must be seen as the form of planned regulation of international socialist economic relations. As Bogomolov (1987, 446) has warned, ignoring conditions in which the commodity-money instruments have to function, may lead to incorrect prescriptions with regard to the improvement of their functions, and assigning to them attributes which they can not, and should not have in the conditions of planned regulation of economic cooperation of CMEA members.

Thus, given these caveats, provisions for the reform of commodity-money instruments, reformist rhetoric notwithstanding, were not aimed at the introduction of these essential conditions for, in practice, SEI was to be implemented chiefly by joint planning and the strengthening of the CMEA organisational structure. The instruments of indirect coordination were to remain subordinate to planned instruments. The clear indication of the limits of the reforms of CMEA mechanisms was the absence of operational terms for the functioning of the monetary and financial instruments and institutions in the context of plan coordination, or mechanisms which would make this combination possible. Furthermore, the CP did not refer to reform of domestic mechanisms in individual countries such as exchange rates and the pricing systems, which was necessary for the introduction of conditions essential for genuine liberalisation of trade, multilateralism and the calculation of the effectiveness of economic ties by enterprises. The principle that direct links between enterprises were

to be established with 'due consideration for systems of planning and management in given countries' and trade should be conducted on the basis of the state monopoly of foreign trade was a clear indication of the limits of reforms in the domestic systems.

The reform of CMEA mechanisms limited to an improvement of the existing system based on central planning and management of the economy conformed to the principles of Soviet economic system based on centralised commands and the Soviet conception of post-1968 reforms discussed earlier. The Soviet Union opposed any proposals which might have been incompatible with the Soviet economic system, even if their introduction, such as non-quota trade in strategic goods, might have benefited the Soviet Union.

The continuing reliance on the planned instruments of CMEA cooperation meant that traditional barriers to cooperation, described in chapter 2, were preserved. As a consequence, the CP, even at the conceptual level, did not offer a viable program of reform of CMEA mechanism. Some authors suggested that it represented more a recognition of need rather than a statement of intention, and thus served as a political safety valve for the aspirations of reform-oriented CMEA members (Bozyk 1986, 10).

The Joint Plans of Multilateral Integration Projects and Long-Term Target Programs: Their principles and objectives.

The main instrument for the implementation of the strategy of CMEA economic cooperation formulated in the CP were the Joint Plans of Multilateral Integration Projects and Long-Term Target Programs. The Long-Term Target Programs represented an attempt at the coordination of national economic development strategies of the member countries around long-term investment programs in five key sectors of the economy regarded as necessary for the transition from extensive to intensive growth and technological progress. The provisions of Long-term Target programs were to be specified in five-year Joint Plans and form a basis for the coordination of plans. Their multilateral character and a substantial extension of the time horizon of

CMEA cooperation were interpreted by Soviet economists as factors considerably improving the effectiveness of the CMEA mechanism by enabling more effective coordination of production and investment plans (Alekseyev 1971, 3; Bogomolov 1987, 372, 424-8).

The idea of the elaboration of Joint Plans was raised for the first time at the 26th Council Session in July 1972 which stressed the necessity of joint action in the development of CMEA raw material and energy sources. The Session announced that the strategy of cooperation outlined in the CP would now proceed on two inter-related but distinct levels by means of two separate mechanisms of cooperation. At the bilateral level, cooperation was to proceed on the basis of traditional foreign trade agreements based on the coordination of national economic plans, but which would not encroach upon domestic investment planning. At the multilateral level, coordination was to be conducted within the framework of Joint Plans organised on the basis of joint planning and include joint investment projects and long-term agreements of specialisation and cooperation. According to a recommendation of the 27th Council Session in 1973 Joint Plans were to be elaborated and presented to the Session for approval every 5 years.

The intensification of Soviet pressure on East European countries to contribute to joint investments came in the wake of a rise in oil prices on world markets. This made the East Europeans even more dependent on Soviet deliveries which they could purchase within the framework of bilateral agreements without need to spend scarce convertible currencies. It also coincided with the failure in 1974 of Soviet negotiations with the United States and Japan on long-term financing and cooperative energy ventures for developing the massive gas projects and oil pipeline in Siberia (Hardt in Terry 1984, 203). To add to the pressure the Soviet Union announced at the 28th Session in June 1974 that future Soviet oil deliveries would fall short of initial forecasts, thus making clear that participation of Eastern European states in joint investment projects was essential not only to ensure increases in deliveries but to

secure the present level of deliveries. Not surprisingly, then, at the 28th Session the Soviet Union obtained approval for plans for the joint construction of the Orenburg gas pipeline and expansion of the Mir powergrid (Trend 1974).

This direction of CMEA strategy was formalised at the 29th Council Session in June 1975, which adopted the first Joint Plan for Multilateral Integration Measures for the years 1976-80. The Session set out as the main areas of cooperation: the construction of capital investments projects in the area of fuel and energy resource development as well as in electricity transmission and gas transportation and the development of specialization and cooperation of production, especially in the machine building industry (*Zycie Gospodarcze* 29 June 1975, 11).

The majority of investment projects provided for the joint participation of interested East European countries in the expansion of the productive capacity and transportation of Soviet raw materials. Out of seven projects which were already under negotiation by the time of the 29th Session, five were located in the Soviet Union, one in Cuba, and another in Mongolia. The largest undertaking, involving all six East European countries, was the Orenburg gas pipeline project, whose total estimated cost accounted for about 50 per cent of the value of all CMEA joint investment projects in the 1976-80 period.

The East European states were required to contribute investment funds, machinery and equipment, construction materials and labour. In return they were to receive guaranteed supplies of the products of the enterprise over a period of twelve to twenty years. To ensure the fulfilment of their respective obligations arising from the Joint Plan each participating country had a legal obligation to include their contributions to these projects in a special section in the annual, five-year and long-term plans (Bogomolov ed. 1987, 400-3).

In the area of production cooperation the Joint Plan included long-term bilateral and multilateral specialization and cooperation agreements (14 in 1986-90) in

particular in machine and chemical industries and scientific and technological cooperation projects (Nosiadek 1986, 22-3)

The 29th Session also recommended that the Joint Plans should be prepared and implemented on the basis of the Long-term Target Programs of Cooperation. This was a Soviet proposal which was adopted by other CMEA members without opposition. Subsequently, the 30th Session in 1976 adopted the principles and methodology for the elaboration of the Target Programs and identified the following five areas of economic cooperation which the programs were to cover:

1. The solution of problems concerning the maintenance of adequate supplies of energy, fuels, and raw materials;
2. The enhancement of production specialization and the elimination of duplication in the machine building sectors;
3. An improvement in the supply of basic food supplies and an increase of agricultural output;
4. The improvement of the supply and quality of a wide range of industrial consumer goods;
5. The establishment a fully integrated regional transportation system.

Their draft plans were discussed by the 31st Session in 1977, and the 32nd Session in 1978. The 33rd Session in 1979 and the 35th Session in 1981 adopted two programs including 320 joint integration projects for realisation in the period from 1981 to 1990. The 37th Session in October 1983 adopted two multilateral programs of cooperation until 1990 for the improvement of basic food supplies and for the solution of problems in meeting the demand in energy, fuels, and raw materials.¹ On the basis of these programs CMEA countries signed 98 bilateral and multilateral agreements on

¹Nosiadek (1986, 22-4) provides a list of multilateral programs of cooperation until 1990 adopted in 1983.

specialisation and cooperation of production for 1986-90 (Bogomolov ed. 1987, 383).

The political implications of the CMEA strategy of integration.

At one level, the formulation and implementation of joint policy in the form of Joint Plans and Target Programs seemed to represent a desirable direction for economic cooperation from which all CMEA members could benefit. The participation of East European countries in joint investment projects seemed to be advantageous to both sides. The Soviet Union received their partial contribution to the costs of raw materials and transportation. East European countries were guaranteed on a barter basis stable deliveries of Soviet raw materials and energy necessary for the operation of their industries at a time when world prices for all forms of energy were soaring. Furthermore, the implementation of specialisation and cooperation agreements was to contribute to coordination of investment in key sectors of the individual economies, and thus to the more rational allocation of resources within the bloc to avoid the parallel production of specific machinery and equipment in individual countries. This would guarantee the creation of export markets large enough to allow East European countries undertake large-scale production and to make investments in technology and research which would otherwise be impossible. The agreements would thus also become a mechanism enabling the improvement of technological standards and the quality of products on the CMEA market and make them competitive on world markets (Lesechko 1968 in Stone 1996, 125-8). An increase in the exchanges of products of specialisation and cooperation would also contribute to the expansion of intra-CMEA trade and an increase of the share of technologically advanced products in intra-CMEA trade.

In practice, however, the primary benefactor of the implementation of the program seemed to be the Soviet Union. The primary objective of specialisation and cooperation agreements was to upgrade export commodities with which the East European countries would compensate the Soviet Union for future deliveries of

energy and raw materials. Improvement in quality and technical standards would thus improve the terms of trade in favour of the Soviet Union and therefore the profitability of Soviet exchanges. With regard to the Target Program for energy and raw materials the main Soviet objectives included the coordination of the CMEA member countries' energy needs and finding ways to force Eastern Europe to contribute to the costs of production and transportation of these exports. The Soviet Union also tried to reduce its own exports of raw materials by trying to force its partners to increase their production and impose upper limits on their demands for additional supplies. In particular, a Soviet objective was to reduce East European demand for oil by increasing the countries' reliance on their own coal resources and by stimulating further investments in coal production in Poland.

From Eastern Europe's viewpoint, these terms of participation in the Joint Plans were not equally advantageous and during negotiations East European countries opposed the Soviet proposals. As a rule they did not want to include the raw materials that they exported because they would then be expected to increase those exports, which could be sold for convertible currency to the West. Poland resisted pressure to develop its local coal supplies in joint investment with Czechoslovakia and East Germany by announcing that any exports of coal should be balanced by oil and refined oil products.

As this proposal to reduce East European demand for petroleum and natural gas met with resistance, the Soviet Union proposed the undertaking of joint investments in the construction of two new nuclear power plants. During negotiations there were serious differences among future participants.

The Soviet Union insisted on East European contributions and was determined that its partners themselves should produce most of the specialised equipment for the power plants (Stone 1996, 155-8). East European countries presented, however, a united front and refused to undertake production of equipment, demanding that the Soviet Union adopt the role of a general supplier of equipment and services for

nuclear power plants. The reason was that under the existing pricing system the production of highly specialised equipment was not profitable. Moreover, production which required substantial investments in scarce materials would have no market other than the CMEA. The struggle over specialisation dragged on from 1977 to the middle of 1979 and finally the Soviet Union was responsible for the two-thirds of the major types of equipment coordinated under the agreements.

In addition, from East European perspective the participation in joint investments tied up investment funds, equipment, materials and labour which could have been directed towards the modernisation of their economies. Thus they conflicted with the requirements of economic reform and the structural transformation of their industries in favour of development of less energy- and material-intensive sectors.

Both joint investments and specialisation agreements also involved expenditure in hard currencies which could not be compensated under existing trade and financial arrangements. Firstly, joint investments involved the transfer of financial resources from credits obtained in the West. The low interest rate received in comparison to the costs of servicing their share of loans in convertible currencies meant actual financial loss to East European creditors (Marer in Terry ed. 1984, 171). Moreover, production of commodities within specialisation agreements at the high technological level expected by the Soviet Union required investments in modern technology which was not available within the bloc and therefore had to be paid for with hard currency. These expenditures due to high Western import content of East European exports similarly would not be compensated.

In sum, for East Europeans, participation in Joint Plans contributed to an increase in the region's hard-currency indebtedness. Apart from the burden of large hard currency contributions the East European countries also suffered losses in terms of future hard currency earnings as the utilization of East European products, labour and capital to develop the productive capacity of Soviet energy-related enterprises led to

the diversion of resources from investment projects which could have been oriented towards Western markets.

The program of joint investments was also criticised by East Europeans as evidently favouring the Soviet Union since the participants in the joint venture received in repayment for their labour and capital only raw materials but were denied any share of the profits (Hutchings 1983, 190). Furthermore, even though the projects were jointly built and financed, the ownership benefits accrued only to the Soviet Union which acquired the exclusive property rights of all plants and facilities. Furthermore investing East European countries objected to the high manpower costs of these projects and the blatantly unfair prices for construction services which were set arbitrarily at Soviet domestic prices, well below world market prices. It was not until the late 1980s that the Soviet Union agreed to change these principles of evaluation of East European contributions (*Polityka* 17 December 1988, 18). Furthermore, in political terms, the Joint Plans raised fears of enhancing Soviet leverage over the region as specialisation agreements would increase Eastern Europe's dependence on the Soviet market while joint investments would increase dependence on Soviet energy deliveries.

The cumulative effect of the imposition by the Soviet Union of joint investments in the development of Soviet resources was also negative from the point of view of the CMEA as a whole. As mentioned earlier, joint investments contributed to the preservation of outdated and noncompetitive production sectors while hampering structural transformations of domestic industries and withdrawal from energy- and material-intensive sectors. This was not conducive to integration because it hampered efforts towards the development of complementary industrial structures. East European participation in investments also contributed further to the isolation of CMEA from world markets, while at the same time some countries incurred high debts in the West.

The choice of methods of implementation of Joint Plans was also primarily designed to ensure more Soviet control over the process of cooperation than it was possible under existing forms. Joint planning, was designed by the Soviet Union to enable the imposition of its own preferences on participants regarding the directions of development of specific production branches. The CP emphasised that joint planning did not represent attempts at supranational planning. It stated, 'The independent character of internal planning is preserved in joint planning. Under joint planning, national ownership of . . . production capabilities and resources is retained' (Butler ed. 1978, 53). It went on to say that joint planning was to be conducted on a voluntary basis and that decision-making, organisational and technical aspects of joint planning remained under control of national organs. In the same spirit Bogomolov (ed. 1987, 400) stressed that the implementation of joint plans was to rely on the established principles of cooperation of sovereignty and interestedness. The aim of these joint planning activities was to overcome barriers of plan coordination without encroaching on the sovereignty of individual states. He added that the provisions of the programs did not have the character of directives, and that participation in projects and their inclusion in national plans was a choice that belonged to individual CMEA members (Bogomolov ed. 1987, 376).

However, in practice, if the procedures governing the formulation of a joint plan were followed, the joint plan would function as a kind of supranational plan which would allocate investment projects to participating countries from a bloc rather than a national viewpoint. The principle that the formulation of a joint plan establishing common objectives for a given sector or type of production should be completed before national plans were approved and their provisions be included in national plans presupposed the gradual transfer of planning prerogatives from national authorities to central planning organs in CMEA. Given that the Soviet Union had the greatest potential leverage in setting the priorities this would considerably increase Soviet

powers with regard to the coordination of production plans of member countries in key economic sectors in line with the priorities of the Soviet economy.¹

Similarly, the Soviet Union as the principal supplier of strategic fuels and raw materials was in a position to set unilaterally the terms of agreements. All joint investment projects were subject to Soviet control over their conception, planning, production and distribution. Direction of their operations was delegated to CMEA's international organisations whose most influential participant was the Soviet Union. The supranational implications of these measures were clear and not unnaturally the Joint Plan was seen by East European countries, as imposing an international plan to which national plans were subordinated (Hutchings 1983, 177).

Conclusion

This section demonstrated that the strategy of cooperation outlined in the CP was designed by the Soviet Union to adjust CMEA mechanisms and forms of cooperation to meet the requirements of Soviet policy. Firstly, the Soviet Union set the possible limits of the reform of CMEA mechanisms by insisting that the principles of CMEA mechanism had to conform to the Soviet model. Furthermore, it developed the methods of cooperation which aimed to ensure a decisive position for the Soviet Union in the development of new forms of cooperation. In the long-term, the CP strategy was seen by the Soviet Union as a means of improving the Soviet foreign trade structure, and thus terms of trade, by reducing the share of energy and raw materials in Soviet exports to Eastern Europe and reducing the share of East European manufactures in Soviet imports. This would ensure an increase in the profitability of Soviet exchanges and that the Soviet domination would not be too costly. A political objective with regard to SEI was to ensure a change in the model of cooperation and

¹ According to Bogomolov (ed. 1987, 324) the elaboration of Target Programs was directly aimed at adjustment of investment needs in entire industrial sectors in accordance with the collective not individual investment needs.

the structure of trade towards an improvement in the terms of trade without endangering links of dependence. Eastern Europe was to contribute to this transformation through forced participation in the development of Soviet fuel and energy resources and the development of the specialization and cooperation of production.

The implementation of the strategy outlined in the Comprehensive Program. The actual functioning of CMEA mechanisms.

As discussed earlier, the primary objectives of the Comprehensive Program were a shift of the basis of cooperation from trade relations to regional specialization and cooperation of production, an increase in the proportion of technologically advanced products in intra-CMEA trade and the development of Soviet resources with East European contributions. These objectives were not met and from the mid-1970s, and more precisely, after the 'energy shock', there was no progress in any of the major areas of cooperation. The share of intra-CMEA trade in overall trade of CMEA members was falling steadily. This trend slowed down during 1981-85 primarily due to an increase of tensions in West-East relations which resulted in a decrease of exchanges between CMEA and OECD. However even then the value of exchanges in the 1980s had fallen by factors of four or five, and the rate of growth in physical units by factors of 1.5-2 (Bozyk 1986, 6, 13). The commodity structure of trade remained unchanged which meant that the traditional model of intra-CMEA exchanges was intact. The CMEA market was also characterised by shortages of high quality goods and problems with balancing accounts.

The results of the Comprehensive Program in the area of joint investments were confined to a few projects in the development of raw materials and energy resources, which were carried out on Soviet territory, such as the Orenburg gas pipeline, an asbestos factory in Kiembaevo, a cellulose plant in Ust-Iliimsk, and a power-grid in Vinnitza- Albertirsha. In economic terms the significance of the projects included in the first Joint Plan was not overwhelming. Their total cost, said to be about nine

billion transferable roubles, was estimated to be only 1 to 2 percent of total CMEA investment expenditures for the 1976-80 period (Hewett 1977, 190). The failure of East European participants, except for Poland, to fulfil their original assignments in the Orenburg project, the first major project undertaken as a part of the Joint Plan led to a considerable scaling down even of this original modest range of joint investment projects to just two projects in the last half of the 1970s (Hutchings 1983, 190-1).¹

CMEA members also failed to implement another major element of the CP strategy, the specialisation and cooperation agreements including the program (the biggest in CMEA history) of specialisation and cooperation in production of equipment for nuclear power plants. These agreements in general poorly fulfilled the role of a mechanism of qualitative transformations in production structure. In most cases they represented exchanges of final products which could be realized independently of specialisation agreements and not the joint development of particular types of products. This was a deliberate tactic of the cooperating parties, aimed at the creation of the appearance of the development of specialisation in order to satisfy the requirements of planning authorities (Gavrilov and Kosikova 1988, 106).²

The abandonment of the Target Programs as a Soviet priority was reflected in the removal on the orders of the CPSU Central Committee of all reference to its projects in the 1986-90 plan and from the proposals for the CPSTP.

There were several reasons why the objectives of the Comprehensive Program were not met. As mentioned earlier, the principal condition of the successful implementation of Joint Plans was the establishment of common objectives before the countries developed their own plans so that the five year plans could be harmonised with the Joint Plan effective for the same period. In the phase of the formulation of the

¹Other participants included East Germany Hungary and Czechoslovakia.

²In 1985 the products of specialisation and cooperation accounted for 22 per cent of CMEA foreign trade. In the machine-building industry 40 per cent of mutual exchanges were the result of specialisation agreements, while in the chemical industry almost 29 per cent. The products of intra-branch cooperation accounted for only 10-15 per cent in machine-building, which was the best result among all the industries (Misala 1986, 18).

Joint Plan this depended on the provision by national planning bodies, before the beginning of plan coordination, of accurate information on the projected supply and demand for particular products. This was essential in order to design an agreed international plan and allocate production and investments in raw materials and technology to individual members which would include these targets in their national plans. In the phase of implementation a prerequisite for the success of the Joint Plans was that national governments assign priority in national plans to their projects and allocate sufficient resources for their implementation.

The flaw of this strategy lay in that there was nothing in the existing design of the CMEA operation to assume that these essential conditions could be met. CMEA, as discussed earlier in chapter 2, did not have the institutional powers to force national planners to provide such information or force governments to implement its decisions or concentrate resources on a few priority projects. Consequently, the coordination of plans was principally a means of exchanging information on import requirements and export possibilities which were then adopted as a basis for concluding inter-state bilateral trade agreements. The Comprehensive Program did not introduce any changes in these arrangements that would ensure that the new methods of plan coordination would replace bilateral trade negotiations. The expected effectiveness of the postulated mechanisms was based on the assumption that the principle of the compulsory and unconditional character of implementation of CMEA recommendations would be a sufficient guarantee of the fulfilment by individual governments of their obligations. The effective functioning of this principle depended on a system of inter-state agreements regulating cooperation, and on securing in national plans of sufficient resources for the implementation of cooperative projects.¹

In practice, the problems of establishing joint production plans were acknowledged were well known by the time of the 27th Council Session. The

¹ An obligation of individual governments to coordinate CMEA recommendations with national plans was proclaimed by Bogomolov (1987, 369) as the one of the most fundamental principles of joint planning activities within CMEA.

coordination of domestic investment plans was strongly resisted by CMEA countries who had shown little inclination to subject their development strategies to regional coordination (Ausch 1972, 217). As a result, the formulation of the Joint Plan did not differ from the traditional process of coordination of plans and did not precede national planning. The Target Programs also failed to set a few clearly defined goals and to force countries to concentrate resources on selected priority projects. Instead, during ensuing negotiations participating countries included an excessive number of projects, which meant that they could not serve as effective priorities. Furthermore, many of the specialisation agreements for machine building were, as mentioned earlier, filled by participating countries with the long lists of existing exports (Stone 1996, 159-60). Consequently, Target Programs were formulated on the basis of the existing agreements on cooperation and specialisation instead of setting priorities for the Joint Plan and the next round of plan coordination.

The process of implementation of the Joint Plan was also characterised by the failure of East European governments to fulfil their obligations. East Europeans made every effort to reduce their contributions to Soviet investments, bargained over terms, did not allocate the resources necessary to meet their obligations and failed to make deliveries.

With regard to the implementation of joint investment projects the failure of East Europeans to meet their obligations can be explained first of all by their doubts as to the economic merits of their participation. This was due, firstly, to the absence of accurate information about future prices for the commodities used to repay the investments and about the opportunity cost of investment participation which made it difficult to determine the effectiveness of a project. Secondly, some aspects of their participation, discussed in a previous section, were evidently not economical from the East European perspective. As a consequence they strongly objected to the terms on which these projects were to be implemented and tried to minimise their contributions.

The difficulties in calculating the effectiveness of projects were also cited as one of the main reasons East Europeans failed to fulfil their obligations in regard to specialisation agreements (Basiuk in Bozyk ed. 1984, 161; Nosiadek 1986). Another reason for East European resistance to specialisation agreements related to the perceived unfairness of their participation. As mentioned earlier, the Soviet Union regarded agreements primarily as a way of improving the quality and technological standards of East European machinery exports and of changing its own structure of exports. However, it refused to pay for their contribution to science and research and for costly Western technologies which were needed in order to produce high quality products. In addition, inadequate protection of copyrights and patents in CMEA deprived investing countries of their due profits (Bielen 1996, 31). As a result, East Europeans sought to avoid investments in their export industry for which they would not receive an appropriate reward. Furthermore, East Europeans had a reason to avoid investments in CMEA as their main interest was to obtain products from the West and investment in CMEA conflicted with this objective.

Furthermore, in many cases the opportunity to develop intra-branch specialisation was not taken up because of intra-CMEA mechanisms. For instance, under the existing CMEA pricing system there was no incentive to start new specialisations as it was always cheaper to continue the existing products. The lack of interest in the development of specialisation production was also due to a practice that new products were manufactured despite and outside specialisation agreements. Therefore production under specialisation agreements often was not competitive in the world markets, in terms of technological level and quality of products, even though it commanded prices close or even higher than world market prices. The lack of interest in intra-branch specialisation was also a consequence of the fact that complete products could not be sold outside CMEA for convertible currencies (Gavrilov and Kosikova 1988, 106).

CMEA institutional mechanisms also obstructed the implementation of intra-branch cooperation by the traditional cumbersome plan coordination procedures according to which specialisation and cooperation agreements had to be integrated with commitments arising from plan coordination (Gavrilov and Kosikova 1988, 106).

Domestic and CMEA institutional arrangements were also responsible for the failure of international economic organisations to fulfil their intended functions. Thus, their effectiveness in creating direct links between CMEA enterprises was limited by state ownership of the means of production which did not allow free mixing with the property of other economies and whose isolation was further strengthened by autonomously functioning domestic economic mechanisms. Other factors obstructing their operation included the inadequacy of pricing policies and the lack of convertible currency and the consequent lack of the basic financial incentives to form such ties (Trend 1976b).

Another reason for the East Europeans' failure to respond to new Soviet demands, also related to institutional arrangements, was the fact that improvement in the quality of their exports was dependent on changes in production structures and the development of export-oriented sectors in individual economies. These transformations could not, however, be implemented within the framework of traditional economic domestic systems, which, as discussed in Chapter 2, were characterised by the absence of effective mechanisms for adjusting economic directions to the requirements of external markets.

An illustration of the effect on CMEA integration of these problems which were inbuilt into their domestic mechanisms were the results of the implementation of strategies undertaken in the 1970s by some East European countries such as East Germany, Poland and Hungary in response to Soviet demands. They were aimed at the modernisation of industrial structures, and raising the technical standards of products. Poland and Hungary sought to solve looming problems with the

effectiveness of their economies by reliance on Western credits and technology. As demonstrated by Kaminski (1991, 103), the restructuring of economic structures carried out within institutional arrangements of centrally planned economies did not result in a serious structural transformation of their machine-building industries and establishment of a viable, internationally competitive industrial sector. Imports of capital used to modernise industry failed to improve industrial competitiveness beyond 1979.

Problems in the implementation of the Joint Plans were also caused by immediate economic difficulties and hard currency balance of payments problems experienced by the East European countries from the late 1970s. The economic situation in CMEA countries was characterised by shortages of equipment, materials and investment funds, unreliability of supplies, and bottlenecks in production. Investment outlays were constrained in particular in countries which needed to run a positive balance of hard currency trade to service their debt. In Poland under conditions of extreme external financial stress enterprises were starved of the resources needed to replace obsolete capital.¹ The inability to stop the process of decapitalization contributed to the lower quality and declining competitiveness of manufactured goods (Kaminski 1992, 112).

These shortages of equipment and materials and of investment funds had two major negative consequences for the implementation of East European commitments to CMEA. Firstly, they severely hampered the implementation of the Joint Plan, including the production of equipment for nuclear power stations (Stone 1996, 166-7). In addition, participating countries were concerned with the standard of imported equipment exported by other CMEA countries and preferred to practice import

¹According to some estimates the proportion of obsolete equipment was particularly substantial in research and development intensive sectors such as electronics (70 per cent) and machine tools (71 per cent) (Kaminski 1991, 100). Aging capital stock needed a new capital equipment that could hardly be procured in CMEA countries because of necessity to limit external borrowing. As a result of significant curtailment of Western equipment exports in the 1980s Poland's cuts in industrial machinery imports were among the largest in the indebted countries. Among CMEA countries, Romania implemented similar austerity measures.

substitution. Secondly, as a result of competition for investment funds, every industry had an interest in being included in Target Programs, because this was a way of ensuring access to investment resources and imports. On the export side, each country tried to include in the program as many of its existing exports as possible to secure markets (Stone 1996, 162-3). This was one of the main reasons for the inclusion of an excessive number of projects which meant that they could not serve as effective priorities and could not be fulfilled.

The flaws of CMEA and domestic mechanisms also affected the behaviour of the Soviet Union. The approach of the Soviet side demonstrated that it was not a priority of Soviet branch ministries to develop specialisation and cooperation. In practice, according to the report prepared by the Institute for the Economy of the World Socialist System, during the coordination of plans for 1976-80 the Soviet side did not have a clear conception of branch-level specialisation, thus leaving the initiative to select areas of cooperation to East European partners. The Soviet proposals lacked technical or economic justification. Furthermore, despite Soviet official position to demand that East Europeans improve the quality and raise the technical standards of their products, the Soviet Union made no consistent effort to force the East Europeans to carry out their commitments (Stone 1996, 142-3). This account of negotiations indicates that the Soviet lack of interest in the implementation of Joint Plans and the initiation of new cooperation agreements was consistent with the limitations of domestic and CMEA economic mechanisms, which did not provide incentives to undertake specialisation. Furthermore, the lack of Soviet interest in the improvement of quality was consistent with competing priorities in the Soviet economy. As a result of structural shortages, importers were interested in securing deliveries regardless of their quality, and producers preferred to import traditional products as design changes could lead to price increases (Stone 1996, 166).

This section demonstrated that while the Soviet Union succeeded in the formulation of the CP strategy in conformity with its economic and political

objectives, it failed to achieve the objectives of the Program in the implementation phase. The discussion shows that the immediate reason of problems with the implementation of Joint Plans was the failure of East European participants to fulfil their obligations. These actions were partly deliberate, due to East Europeans' doubts as to the economic merits of their participation, and to the perceived unfairness of the terms of their contributions. Their choices were also caused by the limitations inherent in domestic and CMEA mechanisms which could not provide the information needed to assess the effectiveness of projects or which provided no incentive to implement the strategy. Another reason was that their systems of management did not provide incentives for export-oriented production or for the upgrading the standards of commodities. These problems with the lack of appropriate mechanisms in national economies and CMEA were further exacerbated by the persistent shortages of inputs, investment funds and equipment. As a result of these impediments, East European countries used CMEA mechanisms to protect their interests and participate in ways which would maximise their advantages from cooperation. The lack of interest in the implementation of Joint Plans also characterised also Soviet behaviour which, except for joint investments, did not put pressure on East European partners to fulfil the agreements and did not insist on the improvement of the quality and technical standards of their exports.

1980-1984: Soviet-East European relations.

The main political factors which determined Soviet-East European relations towards the end of the 1970s and in the early 1980s were the Soviet Union's ambition to play the role of a global power, and the deterioration of East-West relations. In intra-bloc relations, the greatest impact had been the rise in August 1980 of an independent trade union 'Solidarity' in Poland and the ensuing 18 months of unprecedented challenge to the existing system of exercising power, which was brutally stopped by the imposition of martial law by the Polish general, Wojciech Jaruzelski.

The deterioration of East-West relations followed a period of detente during which the Soviet Union obtained from the West recognition of the political and territorial status quo in Eastern Europe. The Soviet domination of Eastern Europe was implicitly accepted by the 1975 Final Act of Helsinki which formalized the division of Europe into spheres of influence. However, towards the end of the 1970s as the result of Brezhnev's expansionist policies Soviet relations with the West were becoming increasingly confrontational. The increase in tensions was caused initially by the Soviet deployment of the SS-20 in 1977, the invasion of Afghanistan in 1979 and the imposition of martial law in Poland. Relations further deteriorated with the deployment of intermediate range nuclear missiles (INF), American Pershing-IIs and GLCMs in Europe (in response to the Soviet deployment of the SS-20), and the announcement by the Reagan administration of the development of the Strategic Defence Initiative -SDI- which led to a new round in the postwar arms race.¹

These tensions in East-West relations contributed to an increase in the relative importance of Eastern Europe in Soviet foreign policy concerns. The deployment of INFs and NATO's efforts to improve its conventional capability enhanced the strategic significance of Eastern Europe as they made it crucial for the Soviets to have access to a defensive-offensive base in the region. The political utility of Eastern Europe in Soviet global strategy also increased, especially in view of the expansion of its influence in the Third World, as it could be used as an exponent of socialist cause.

Economic factors which determined Soviet-East European relations included the deteriorating domestic economic situation of Soviet bloc countries, constraints on the existing model of intra-bloc cooperation and the growing lag in technological standing in relation to the Western nations.

In the early 1970s growth rates increased in most Soviet bloc countries, and material living standards improved markedly. This was largely due to the favourable

¹The Soviet ultimatums on this score culminated in Yuri Andropov's announcement on 24 November 1983 that the arms control negotiations with the US were broken off.

impact of large-scale imports of Western equipment and consumer goods financed by Western credits. By 1975, however, under the combined influence of the dramatic increase in OPEC oil prices in 1973-74, global recession and inflation, trade with the West began to decrease, as the East European states found it increasingly difficult to purchase Western products or find markets for their exports. Faced with a slowing down of economic growth some countries that relied on Western technology and financing, notably Poland, resorted to taking more credits which were then easily available in Western financial markets. Their subsequent inability to service their debts led to increasing balance of payments problems.

These difficulties were additionally exacerbated by the intensification of Soviet pressure on making East Europe contribute to the needs of the Soviet economy. An early manifestation of this policy was a unilateral, abrupt change in the CMEA pricing system in the wake of the rise in world oil prices and a consequent Soviet oil price increase implemented in January 1975. These new prices led to a deterioration in the regional terms of trade for all East European economies, most of which were heavily dependent on Soviet oil deliveries. Another move towards a change in terms of intra-bloc economic relations was the announcement at the 33rd Council session in 1979 of no prospect of increased Soviet oil deliveries.

These developments in the world economy and declining growth rates, soaring energy costs and diminishing supplies, mounting indebtedness, and steadily deteriorating terms of trade in trade with both West and the Soviet Union were the predominant concerns of the East European states in the late 1970s.

Soviet priorities in Eastern Europe remained however the same. The overall Soviet strategy towards Eastern Europe was marked by a continuing commitment to domination. In response to conflict with the West and the enforced stability in Poland Brezhnev and his immediate successors, Andropov and Chernenko pursued policies of ideological pressures for conformity and a tightening of Soviet political controls over the region. In 1981, addressing the Twenty-sixth Party Congress, Brezhnev

seemingly acknowledged the right of bloc countries to follow their own national ways of building socialism, and denied that there was pressure for uniformity.

Nevertheless, implicit in his statement was the obligation to follow one common line, and a very specific reference to the Brezhnev doctrine warning that the Soviet Union was determined to secure the interests of the communists and defend the socialist gains of the peoples.

In the economic sphere, the basic priority of Soviet strategy was to change the structure of intra-CMEA trade in favour of Soviet needs and ensure the prompt reduction of trade deficits of East European countries which had significantly increased because of the rise in oil prices. Another priority was to find an appropriate way to adjust to the structural changes in world markets and the intensified competition with the West in the science and military spheres, and the economic integration of the European Community, particularly the Eureka program to develop competitive technologies in Europe.

These objectives led to renewed pressures for closer integration of the economic and scientific potentials of Soviet bloc countries, a policy which had been initiated by Chernenko. In June 1984, the Economic Summit Conference of CMEA member countries (the first since 1971) adopted a long-term strategy of cooperation of CMEA members until the end of 20th century. There was an agreement among CMEA member countries about the need to find ways to improve their economic performance and successfully compete with the West. The Conference declared the need for the reform of CMEA mechanisms and structures and the acceleration of integration processes and defined as priority areas for cooperation: the acceleration of scientific-technical progress, cooperation in machine building, radio electronics, automation and ensuring sufficient supplies of fuels and raw materials to meet the needs of national economies (*Trybuna Ludu* 17 June 1984, 1).¹

¹ 'Oswiadczenie w sprawie podstawowych kierunkow dalszego rozwijania i poglabiania wspolpracy gospodarczej i naukowo-technicznej krajow czlonkowskich RWPG.'

The general agreement as to priorities should not, however, obscure the existence of concerns over CMEA's failure to meet the energy needs of its member countries and serious differences over the levels and prices of Soviet energy supplies, the quality and availability of East European industrial products, and the impact of debts to the West on the ability to meet Soviet requirements. These issues highlighted the tensions between the needs of individual countries and the resources at their disposal. Their effect on the implementation of strategies will be discussed in the following chapter.

The Conference also announced the intention of developing direct ties at the enterprise level and the formation of joint ventures. All CMEA members made a commitment to authorise their enterprises to form direct links and establish self-financing joint enterprises and other international economic organisations. The final communique declared: 'As an important direction for the improvement of economic mechanisms of cooperation, the participants of the summit consider broad development of cooperation in production and of direct links between associations, enterprises and organisations. The conditions will be also created for operation of self-financing joint ventures, enterprises and international economic organisations. For that purpose member countries will take steps ensuring that enterprises and relevant organisations will obtain the necessary rights to form direct links and establish self-financing joint enterprises and other international economic organisations.' (*Trybuna Ludu* 17 June 1984, 1).

This intention to expand direct cooperation between enterprises of CMEA countries was announced earlier in 'The long-term program of development of economic and scientific-technical cooperation until 2000' signed by the Soviet Union and Poland in May 1984. This document did not mention joint ventures. In official Soviet and Polish pronouncements the idea of these new forms of cooperation was presented as a model for other socialist countries. The statement following the signing

of the documents declared, 'Thus Poland is becoming a model of the new type of economic relations with the Soviet Union' (Kuczynski 1989,74).

CONCLUSION

This chapter discussed strategies aimed at the development of economic cooperation within CMEA from 1953 until 1984. I demonstrated that both the objectives and the choice of the methods of cooperation were subordinated to the Soviet Union's continuing commitment to domination over the region and its determination to use the CMEA as an instrument for keeping East European countries tied to Soviet objectives. Up to the beginning of the 1970s the Soviet Union was prepared to develop economic relations on the basis of exchange of fuels and raw materials and import East European manufactures. This model of cooperation was beneficial politically for the Soviet Union, as it encouraged East European countries to become dependent on it through the development of industries dependent on the Soviet market, thus isolating East European economies from the West.

However in the 1970s as a result of the growing costs of the development of the fuel and raw material base and the rise in oil prices this model of exchanges ceased to be economically viable. This led to a change in the Soviet approach to CMEA. While the Soviet Union still looked at economic relations with Eastern Europe from the political perspective, and was prepared to maintain an unprofitable model of exchanges to secure Soviet control over bloc economies, the Soviet Union began to place new demands on Eastern Europe to make CMEA conform to the requirements of Soviet economic policies. Taking advantage of the dependence of East Europeans on the Soviet economy, the Soviet Union began to seek the improvement of its terms of trade by demanding an improvement in the quality of East European exports and insisting on contributions to the development of its raw material base.

The Soviet strategy failed partly for objective reasons: the persistence of ineffective mechanisms of cooperation mechanisms, and structural barriers, such as

indebtedness, and shortages of goods and investments funds which from the beginning of the 1980s began to limit the ability of CMEA members to fulfil their obligations. Apart from institutional constraints the implementation of Soviet strategies was hindered by the growing lack of interest of East European countries in cooperation because of the technological gap between Soviet bloc and Western products, and by their resistance to measures which favoured the Soviet Union. This conflict of interest could not be won by the Soviet Union because it lacked effective means for enforcing its demands. The CMEA structures and mechanisms lacked sufficient powers in this regard. Furthermore, its own economic mechanisms were ruled by the same internal logic as the mechanisms of other Soviet bloc countries. These mechanisms did not produce incentives for the development of foreign economic ties and generated shortages resulting in the undermining of any programs aimed at quality improvement.

CHAPTER FOUR

1985-1990: FACTORS DETERMINING PRESSURE FOR CMEA INTEGRATION. THE MAIN PROGRAMS OF CMEA COOPERATION AND THE POSTULATED MECHANISMS OF THEIR IMPLEMENTATION.

This chapter is concerned with pressure for integration within CMEA and its role in Soviet bloc politics from 1985 until 1990. I will examine the proposed objectives and methods of CMEA cooperation as a part of Gorbachev's strategy to redefine the relationship with Eastern Europe and to increase the contribution of the region to Soviet objectives. This chapter will provide an analytical framework for an assessment of the outcomes of the implementation of CMEA reform which will be the subject of the following chapter.

The discussion is divided in three parts distinguished by changes in Soviet objectives in the region and the new corresponding methods of managing Soviet-East European relations. I will begin each part with a brief overview of the economic situation in the Soviet Union, and the main elements of the economic reform program adopted by the Soviet leadership to overcome the perceived problems with economic performance. The discussion is limited to those aspects of postulated changes which were directly pertinent to the subsequent proposals regarding CMEA strategy. Attention will be focused only on those aspects of reform which had a bearing on CMEA reform and its operation, i.e. the scope for independence of enterprises in deciding their objectives, securing supplies and methods of operation.

I will consider changes in CMEA strategies as a function of three major factors: the Soviet Union's domestic political and economic priorities, the principles of Gorbachev's domestic reforms and new directions in foreign policy, and changes in

the relative importance of Eastern Europe in Soviet policies. The chapter also examines the positions of East European countries in the negotiations on CMEA reform and their impact on CMEA strategies.

Soviet domestic objectives

When, on 11 March 1985, Mikhail Gorbachev was elected as General Secretary of the CPSU, the Soviet economy was approaching the situation, which, as he himself later admitted, 'virtually signified the onset of economic stagnation' (*Pravda* 26 June 1987). Soviet economic performance was characterised by a persistent decline in the economic growth rate, with its levels in the late 1970s and early 1980s being the lowest ever recorded in Soviet peacetime history, and by low labour productivity and poor efficiency in the utilisation of raw materials, energy and investment funds (White 1992, 106). The Soviet Union's position in the international division of labour was not commensurate with the Soviet Union's economic potential,¹ and the Soviet export commodity structure was typical of a developing country with energy and raw materials accounting for around 60 per cent of exports.² The inefficiency and wastefulness of the Soviet economy also manifested themselves in the increasing gap in terms of economic efficiency, quality of products and scientific-technological progress in relation to the most developed countries. According to the Soviet's own estimates only 15 per cent of manufactured products were of world quality (Spandarian and Shmelev 1988, 17).

These apparently intractable problems highlighted a growing level of tension between the Soviet Union's capacity and its domestic needs and global ambitions. In the economic sphere, they implied a decreasing ability of the Soviet economy to ensure a level of growth sufficient to support the legitimate needs of the population

¹ Foreign trade accounted for only about 8 per cent of the Soviet Union's national income, while it was close to 15 per cent for the US.

²Shmelev (1987, 154) described the structure of Soviet exports as 'colonial'.

and to compete successfully with the West. In terms of the global strategy of the Soviet Union, they limited its ability to influence international affairs, and undermined the viability of the Soviet claim to offer a new alternative model of social development, in particular in comparison with China. The measure of the diminishing attractiveness of Soviet policies was the waning influence of the Soviet Union in the Third World.

In the military sphere, even though the Soviet Union still managed to retain its strategic position as a superpower, it was increasingly apparent that it was approaching the economic limits of its capacity to sustain the high cost of maintaining military spending.¹ This discrepancy between the Soviet economic performance and its military strength led some analysts to describe the Soviet Union as the 'incomplete superpower' (Dibb 1986).

Gorbachev had demonstrated his awareness of the negative aspects of the Soviet socio-economic system before his assumption of the CPSU leadership. For example, in his address to an ideological Conference of the Central Committee of the CPSU on 10 December 1984, which can be considered as his first programmatic speech, he examined critically the political and economic situation in the Soviet Union and in broad terms outlined the measures essential for 'deep transformation of the economy and the whole system of social relations'. The key to the success of his strategy was the transition to intensive economic growth. He declared, 'Only an intensive, highly-developed economy can safeguard a reinforcement of [our] country's position on the international stage and allow her to enter the millenium with dignity as a great and flourishing power'. He even used concepts such as 'acceleration of social-economic progress' or 'perestroika of economic management'

¹This was made particularly clear by Soviet inability to construct an equally capable strategic defense in response to the announcement by the US in March 1983 of the Strategic Defence Initiative.

which later became catch-words of his reform program. At this point he did not, however, seem to have a clear strategy of reform.

Following his election, Gorbachev formulated in a series of discrete steps the agenda of the economic reform which was to increase the rate of economic growth, close the technology gap, and turn the country into a fully competitive global superpower. The initial focus of his reform program was on conservative measures, such as new investment policy, organisational changes aimed at streamlining and perfecting the traditional system, and the activating of perceived 'enormous reserves' through disciplinary campaigns (*Pravda* 24 April 1985; Aslund 1991, 71-72).

The broader framework of the more radical reform program which formed the basis of economic strategy until 1989 was set out in his address to the 27th CPSU Congress in 1986.¹ Central to his strategy was 'acceleration' of the country's socio-economic development. In his view that was 'the key to all our economic problems; immediate and long-term, economic, and social, political and ideological, domestic and foreign'. He believed that the increase in the efficiency of the Soviet economy and overcoming the competitive and technological lag with the West depended primarily on scientific-technological progress. The transition to intensive growth was also dependent on the restructuring of the system of economic management. The main aspects of the reform included limitation of the responsibility of central decision-making bodies such as Gosplan to long-term planning and macro-economic matters. Lower levels of management such as ministries were to concentrate on technical policies and ensuring high quality products, while enterprises were to be responsible for current economic issues, and their management was to be based on economic accounting and self-financing (*Pravda* 26 February 1986). These innovations, however, did not mean that the reform sought to undermine the

¹The Political Report of the CPSU Central Committee to the 27th Congress of the CPSU, delivered by M.S.Gorbachev, General Secretary of the CPSU Central Committee, on 25 February 1986 (*Pravda* 26 February 1986, 2-10).

traditional principles of the Soviet economy: central planning and state ownership of the means of production were to remain the fundamental features of the socio-economic order.

The introduction of these changes in the economic mechanism did not take place however until early 1988. The resolutions of the 27th Party Congress reflected little of Gorbachev's reform strategy and the Guidelines for the 12th Five Year Plan for 1986-90, which the Congress adopted, were primarily a reflection of his initial traditional, policy measures. The Guidelines set out as their major objectives increases in industrial production and labour productivity and a modernisation of the economy on the basis of the most advanced science and technology. Their implementation, however, still relied on traditional administrative means, such as an increase in the share of accumulation in the national income and allocation of investment resources to priority sectors considered crucial to 'the acceleration of scientific-technical progress and the technical reconstruction of the national economy' (Aslund 1991, 73).¹ The investment increases were to be allocated in five major 'complex programmes' in the areas of food, energy, machine-building, the production of chemicals and the electronics-related sectors: computerisation, robotisation and automation (*Pravda* 19 June 1986).²

The basic principles of Gorbachev's program, as announced at the Congress, were incorporated only in the 'Guidelines for the Radical Restructuring of Economic Management' approved by the Central Committee plenum on economic reform in June 1987. Subsequently, they underpinned reform legislation which was adopted in early 1988.

¹Investment in civilian machine-building was to increase by no less than 80 per cent.

²To the development of these complexes was allocated 80 per cent of the whole increment of investments (*Pravda* 19 June 1986).

The reform envisaged a decentralised economic system based on indirect controls, in particular financial instruments, and allowing greater autonomy for cooperative and individual enterprises. Its central premise was the combination of an increase in the autonomy of enterprises and the broader use of economic instruments with the formation of a much more efficient form of centralised economic management concentrated on the strategic issues. The role of central authorities in the allocation of targets and distribution of inputs was to diminish and be limited to state orders covering only strategic products. Equipment and raw materials were to be obtained to a much greater extent through wholesale trade between enterprises, rather than from the central authorities. The Guidelines also postulated a radical reform of price formation and the finance-and-credit mechanism including a reduction in budgetary subsidies (*Pravda* 26 June 1987).¹

A perestroika of economic management clearly did not represent a transition to market regulation of economic processes. As Gorbachev put it, the aim was ‘the planned mastering and management of the market with consideration for its laws’ (*Pravda* 26 June 1987). However this blueprint for reform represented a distinctly new form of centralised economic management with increased emphasis on economic rather than political criteria in decision-making and regulation of the economy.

Reform measures were justified in ideological terms as representing a legitimate form of ‘developed socialism’. This claim was supported by the reinterpretation of the socio-economic nature of socialism. The formerly espoused doctrines which regarded such features of the socio-economic order as the class structure of society, commodity production, commodity money relations and the market as ‘vestiges of capitalism’ was criticised in Gorbachev’s address at the 27th Congress as a

¹ ‘On the Party’s Tasks in the Fundamental Restructuring of Economic Management.’ - Report by M.S. Gorbachev at the Plenary Session of the CPSU Central Committee on June 25, 1987 (*Pravda* 26 June 1987, 1-5).

theoretical error and an ideological defense of extreme, bureaucratic centralism. As Gorbachev put it, 'In an atmosphere of ideological intimidation, attempts to introduce economic forms of balancing labor and consumption and commodity-money relations which were essential for a shift to an intensive course of development were discredited on the grounds that they were of non-socialist origin and potentially harmful to socialism. They were used to attack any change in the economic mechanism which aimed at the replacement of some directive plan indices with economic normatives as departures from the principle of planned guidance and as all but a retreat from the principles of socialism' (*Pravda* 26 February 1986).

The new official line was that commodity-money relations were not of non-socialist origin but integral and fully legitimate features of 'developed socialism', essential for planned socialist development (Butenko 1987, 17). As Gorbachev argued, their skilful use was to contribute 'to the strengthening of socialism' (*Pravda* 26 June 1987).

Soviet foreign trade reform

Soviet leadership also critically assessed the role of foreign trade in the Soviet economy and the existing methods of foreign trade management. This assessment was prompted by the deterioration of terms of trade with the West, declining competitiveness of Soviet manufactures on world markets, and constraints on the increase in the production of raw materials and fuels. Since the Plenum of Central Committee of the CPSU in April 1985 policy makers and economists began to debate seriously the need to increase the role of foreign trade and the development of production for export as essential conditions for economic growth (*Pravda* 4 March 1986).

These concerns were addressed in August 1986 by two resolutions: 'On Measures to Improve the Management of Foreign-Economic Ties' and 'On Measures

to Improve the Management of Economic and Scientific-Technical Cooperation with Socialist Countries' which became effective on 1 January 1987 (*Pravda* 24 September 1986). These resolutions were regarded as an integral part of the reform of the economic mechanism adopted by the 27th CPSU Congress.

The first resolution provided for a significant expansion of the legal and economic rights and responsibilities of ministries, production associations, enterprises and organizations in the conduct of foreign economic activity. The right to conduct relations of this kind was extended to more than twenty branch ministries and seventy large associations. These provisions meant that the Ministry of Foreign Trade lost its formal monopoly over foreign trade. Its powers were additionally restrained by placing it under the supervision of a new superministerial body, the State Foreign Economic Commission (GKES) under the USSR Council of Ministers whose role was to improve the management of foreign economic relations and to coordinate the work of organizations involved in trade, economic, foreign currency, financial and scientific-technical links with foreign countries.

The resolution also outlined financial measures aimed at the economic accountability and self-financing of enterprises and associations, such as setting up foreign currency funds for financing export-import operations and the right to obtain foreign-currency credits from the USSR Foreign Trade Bank. All profits from activities in the field of international cooperation were to remain fully at the associations' and enterprises' disposal. Their autonomy was, however, limited as the central authorities retained the right to set obligatory targets for exports. Similarly, their requirements for purchases were to be included in the import plan.

The introduction of these measures was aimed at eliminating the artificial barriers which isolated Soviet producers from foreign markets, increasing their economic interest in developing exports and modernizing their production facilities, forcing

them to raise the technical level and quality of products and make prudent use of imported resources and developing direct production ties with producers in other countries (*Pravda* 24 September 1986).

The second decree outlined measures related to the granting to Soviet associations and enterprises the rights to develop direct ties with enterprises and organisations of other CMEA member countries. The underlying assumption was that this would accelerate the process of socialist economic integration by ensuring a move from primarily trade ties to extensive production specialisation and cooperation and scientific-technical cooperation (*Pravda* 24 September 1986).

According to the decree, production associations and enterprises with rights to establish direct links could decide all questions of cooperation independently. This included determining areas of cooperation, setting concrete objectives for cooperation, selecting partners in the CMEA member-countries, making deliveries under cooperative arrangements, signing economic agreements and contracts for output deliveries, setting prices for cooperatively produced components and services rendered. They could also engage in the joint planning of cooperative production facilities, building new and reconstructing existing capacity (*Pravda* 24 September 1986).

These changes in the organisation of Soviet foreign trade were supplemented by two decrees on the principles concerning the establishment and operation of Soviet joint ventures set up in cooperation with capitalist and CMEA enterprises, respectively, which were adopted on 13 January 1987. The decree concerning cooperation within CMEA, which is of interest to us, provided for the formation of joint enterprises, international associations and organizations on the basis of common ownership. They were to remain the property of a participating state, but be

operated jointly in accordance with the existing USSR legislation (*Rynki Zagraniczne* 30 January 1987, 2).¹

Joint enterprises were to be economically independent organizations operating on the basis of full economic accountability. They were not subject to state planning. They had broad rights to determine independently their areas of cooperation, conduct their activities in the export-import sphere, set prices and conclude contracts. The profits were to be distributed among the participants in proportion to their original contributions. Foreign participants in joint ventures had a right to transfer to their own countries sums in transferable roubles and other currencies. They enjoyed tax relief during the first two years of their operation.

The stated objective of the development of joint ventures was a more effective utilisation of scientific-technical potential in CMEA countries, better satisfaction of Soviet needs in industrial products, raw materials and consumer goods, introduction of leading know-how, the development of specialised export base and limitation or substitution of Western technological imports (*Rynki Zagraniczne* 30 January 1987).

In contrast to the previous rigid Soviet position the foreign trade reform designed to encourage more direct links at the level of enterprises and organisations represented a seemingly radical measure. However, it was limited and not very original. The establishment of economic and organisational conditions for direct involvement of producers in trading relations with foreign partners did not go any further than the reforms in the foreign trade system in Eastern Europe in the 1960s and 1970s which did not undermine the principle of the monopoly of foreign trade. As discussed in chapter 2, reforms limited to the removal of formal constraints on the autonomy of enterprises were not successful in increasing their interest in export.

¹Decree of the Council of Ministers of the USSR 'On the principles of establishment and operation on the territory of the Soviet Union of Soviet joint ventures, international associations and organisations set up in cooperation with CMEA enterprises, discussed in 'ZSRR: Wspólne przedsiębiorstwa z udziałem zagranicznym.' (*Rynki Zagraniczne* 30 January 1987, 2).

The prerequisite for the creation of economic incentives to develop export production was the reform of the pricing-financial mechanism of domestic economies, including pricing reform and convertibility of national currencies. Measures for the operation of enterprises on the basis of limited economic accountability and self-financing outlined in the Soviet reform package fell short of introducing these essential conditions.

**Soviet - East European relations. Soviet priorities in Eastern Europe.
The role of the CMEA in Soviet policies from 1985 until late 1987.**

In the initial period following Gorbachev's ascent to power the relative strategic, political and economic importance of Eastern Europe in the Soviet Union's policies was a reflection of traditional Soviet concerns with securing its strategic interests and political control.

In terms of ensuring Soviet security interests, if anything, Eastern Europe retained its importance which it had assumed as a result of tensions in East-West relations in the late 1970s and the deployment of INFs and NATO's efforts to improve its conventional capability. As the atmosphere of confrontation between the two blocs continued in the first two years of Gorbachev's rule Eastern Europe also remained the area of primary political importance. In terms of Soviet global strategy, East European countries still had a role to play as a part of the socialist commonwealth to support the Soviet position in international forums, and voice their opposition to Western policies. They were also used to assist diplomatically, militarily and economically in the pursuit of Soviet objectives in the developing countries.

At the same time, however, the Polish political situation was in conflict with the requirements of Soviet global strategy and posed a threat for domestic Soviet stability and Soviet bloc cohesion. Even though General Wojciech Jaruzelski

managed to contain the Solidarity movement by invasion 'from within', the domestic political stalemate following the imposition of martial law and the disbanding of Solidarity was the most vivid reminder of the fragility of the Soviet-supported regime. Moreover, the economic crisis and the failure of economic reform sent negative messages about the possibility of effective reform within the framework of the one-party state and the Soviet-type economy.

Similar tensions existed in the economic sphere, where the countries of the region had potential for becoming more of an embarrassment or liability to the Soviet Union than a useful ally. The economic performance of the Soviet bloc countries was in many respects similar to that of the Soviet economy. It was characterised by decreasing rates of economic growth, a lag in technological standing in relation to the industrialized capitalist nations and low productivity of the economies. Attempts to switch to intensive growth were not successful; the plan targets were invariably never reached; budgetary deficits and material shortages were on the increase and the social sphere suffered from chronic underinvestment. The existing shortcomings raised serious doubts about the prospects for even modest growth. In addition, their indebtedness both to the West and the Soviet Union, and the need to repay their debts impaired their prospects of economic growth.

There was also a growing realisation in the Soviet leadership of the limits of expanding cooperation within CMEA. The existing model of cooperation had no future, and its maintenance was bound to lead to weakening of the Soviet economic, and hence political, position in the bloc. This was the result of the declining potential of the Soviet Union to maintain existing levels of exports of fuel and raw material due to stagnation or even decline in the production of these commodities which dominated Soviet exports to Eastern Europe. East European countries faced also deteriorating terms of trade with the Soviet Union and increase in their debt. The poor technical levels and low quality of largely uncompetitive exports offered little

incentive for CMEA countries to trade with one another and this led to a sharp decline in the real volume of intra-CMEA trade. The Soviet Union was even compelled to extend credits. According to Soviet estimates this financial assistance together with the price advantages enjoyed by East European countries meant that the actual subsidisation of the East European countries amounted to approximately 18 billion roubles between 1981 and 1984 (Shastitko et al. 1985, 2-3 in Stone 1996, 43).

These political and economic problems in East European countries highlighted a perennial dilemma between cohesion and viability faced by Soviet leaders in securing their objectives in the Soviet bloc; that is, what policies could be applied to ensure economic growth and internal political stability without endangering Soviet control. Soviet options for reforming economic relations to improve the profitability of its trade with the European states and for reducing Soviet subsidies to the region in the face of the economic inefficiency of its satellites were limited by its own domestic economic constraints. On the other hand, the Soviet Union was wary of allowing broad ranging economic reforms. They could make East European countries more productive, but their political ramifications were bound to question the principles of the Soviet model of development, and thus the legitimacy of the Soviet Union's political order. The option of increased economic cooperation with the West to solve the problems of the Soviet bloc states was limited because of continuing tensions and the high level of indebtedness to Western countries. It was also fraught with the danger of decreasing reliance on the Soviet economy and the development of disintegrative tendencies within the bloc.

This combination of Eastern Europe's inability to provide the required goods and the Soviet Union's inability to secure its influence and economic position by means of technology exports meant that the traditional model of trade relations within CMEA, where Soviet raw materials were exchanged for finished products from

Eastern Europe had reached its limits. This had implications not only for the prospects of economic relations between member countries, but also for political relationships within the Soviet bloc. The traditional heavy dependence of East European countries on the USSR for energy and raw materials and on the Soviet market as an outlet for industrial products provided the basis for CMEA cohesion and the instruments for influencing its members. With the breaking down of the material basis for cooperation, the Soviet Union was losing important economic levers of power and influence and ran a risk of weakening its position in the commonwealth.

Gorbachev's policy towards Eastern Europe

The original approach of the Gorbachev leadership concerning the socialist community was conservative. In the first year of his rule Gorbachev did not yet question the Soviet Union's traditional perceptions of the importance of Eastern Europe in strategic and political terms, and his policy in the region followed directions initiated by previous Soviet leaders. Consequently, he adopted a conservative position on the maintenance of Soviet domination and bloc unity. The main themes in his initial public statements were the need for unity as well as the dangers of East European countries becoming overdependent on the West. The continuing subordination of East European countries to the Soviet Union was maintained by the traditional institutions and processes of managing bloc relations. For example, the Warsaw Pact was renewed in April 1985 for another 20 years without any changes in its original Charter.

The conservative position on the Soviet-East European relationship manifested itself also in the traditional argument for bloc cohesion based on the uniformity of the socio-political systems. The acceptable framework for policies was still defined by the doctrine of the general laws governing the construction of socialism, and

acknowledgment of Soviet leadership. An authoritative article published in *Pravda* in June 1985 defined the laws in the traditional way, as the power of the working people with the leading role assigned to the working class; the guidance of society by the Marxist-Leninist party, the public ownership of the basic means of production and the planned growth of the economy (Vladimirov 1985, 11). The article also expressed the traditional attitude to the permissible limits of diversity, which was legitimate only with regard to specific historical features of a socialist country.

Shortly after his election, Gorbachev also expressed his continuing commitment to the standard principles of Marxist-Leninist socialist internationalism including class solidarity, friendship and cooperation, mutual trust, comradely mutual assistance as principles governing intra-bloc relations, and fostering 'broader interaction between the fraternal parties' (*Pravda* 14 March 1985). An article in *Pravda* (15 June 1986) reminded East Europeans of its validity by stressing that national interests must be 'correctly conjoined' with the internationalist interests of the bloc as a whole and that communists must 'always and in everything' remain 'loyal to Marxism-Leninism and proletarian internationalism'.

The need for cohesion of the bloc and unity of action was also, as in the past, justified by the continuing threat from the West. For example, articles in *Pravda* on 15 and 21 June 1985 warned East European countries not to pursue foreign policies towards the West independent of the direction of Soviet foreign policy in view of the aggressive policy of the 'imperialist' countries aimed at creating divisions within the bloc.

This line was continued well into the next year. At the 10th Congress of the Polish United Workers' Party in July 1986 Gorbachev expressed this position thus, 'The national economic interests of our countries, the political situation in the world arena and considerations of economic security require that we must act together,

unifying our efforts. We should not allow dependence on the West. Links with the West should not be wound up, but they must be used rationally' (*Trybuna Ludu* 28 July 1986, 3).

At the 27th CPSU Congress in February 1986, however, there were already some indications that Gorbachev had been developing new ideas of desirable principles and the methods of managing intra-bloc relations which were different from those supported by the traditional doctrines. It was both what he said and what he did not say which signified a shift in his attitude to other socialist countries.

First of all, in his address to the Congress, in the part concerning relations within the socialist commonwealth, Gorbachev did not mention the scientific laws of communist construction as the only legitimate principles of the socialist political system and did not insist on a single model of socialism. In fact he warned against attempts to use the theory of Marxism-Leninism as a set of universal rules regardless of 'the concrete economic and political situation in each particular period of the historical process'. What is more, in a single sentence he seemed to question traditional notions of Soviet authority, the universal applicability of the Soviet model and the limits of diversity, as the basis for unity among the communist parties. He said,

We believe that the diversity of our movement is not synonymous with disunity. Just as unity has nothing in common with uniformity, with hierarchy, with interference by some parties in the affairs of the other, with the desire of any party to have a monopoly on truth. The communist movement can and must be strong through its class solidarity and the equal cooperation of all the fraternal parties in the struggle for common goals. That is how the CPSU understands unity, and it intends to promote it in every way.

The change in his concept of the relations within the socialist community was also implicit in the absence of any mention of socialist internationalism. Instead,

Gorbachev emphasised 'unconditional respect in international practice for the right of every people to choose the paths and forms of its development.' (*Pravda* 26 February 1986).¹

These ideas, however, did not immediately become an officially sanctioned policy of the CPSU and did not affect the practice of intra-bloc relations. The Program of the CPSU (new version) adopted by the 27th CPSU Congress still referred to the general laws of socialism as objective laws governing the transition of socialism into communism. The diversity of the political order was justified only with regard to differences in the levels of the economic and political development of countries, their historical and cultural traditions. The Program also explicitly endorsed the fidelity of the communist parties to Marxist-Leninist principles, the uniformity of social, economic and political systems and the principles of socialist internationalism as the basis of the relations amongst the socialist states (*Pravda* 7 March 1986).² In other words the essential elements of Stalinist doctrines were preserved.

Soviet economic policy towards CMEA members.

This political strategy was supplemented in the economic sphere by a two-fold strategy in which the CMEA was placed in a crucial position. Its thrust was a stress on the contribution of East European economies to the needs of Soviet economy and increased emphasis on economic considerations in economic cooperation. In other words, the Soviet Union was not any longer prepared to pay so high a price for the empire.

One dimension of the strategy had an objective of putting economic relations on a more commercial basis and thus redressing the perceived imbalance in the existing

¹The Political Report of the CPSU CC to the 27th Congress of the CPSU. Delivered by M. Gorbachev on 25 February 1986 (*Pravda* 26 February 1986, 2-10).

²The Program of the CPSU adopted by the 27th CPSU Congress (*Pravda* 7 March 1986, 3-8).

model of economic cooperation. For example, the Soviet Union's agreement to maintain its 1985 level of deliveries of fuel and essential materials, was conditional on its partners' ability to improve the quality of manufactures exported to the USSR and contribute to the development of the raw material base (*Pravda* 27 June 1985). The Soviet Union also tried to narrow the gap between its machinery exports and imports, and began to insist on limitations of quotas for East European machinery exports, while demanding increases in the imports of Soviet manufactures (Stone 1996, 229-31).

The second dimension of the strategy, had broader aims and seemed to be a search for a formula to achieve both cohesion and viability. Its aim was to improve the economic performance of East European states and thus make them economically viable, for their own sake, for the sake of the Soviet bloc economic integration and for the image of Soviet-style socialism. At the same time they were to contribute to the objectives of Soviet domestic strategy, and thus to the improvement of Soviet international standing. In terms of its contribution to bloc cohesion and ensuring Soviet control, the strategy was to generate alternative forms of economic dependence and thus political influence as well as be instrumental in ensuring the highest possible degree of independence of bloc countries from imports from the West.

The first part of this strategy involved pressure on East European leaderships to carry out economic reforms consistent with the Soviet strategy of acceleration of economic development. In accordance with this policy, under Soviet instructions, communist party congresses which convened in Soviet bloc countries at the turn of 1985 and 1986 endorsed five-year and long-term economic plans aimed at a transition to an intensive type of socio-economic development and an increase in productivity on the basis of the acceleration of scientific-technical progress. The second part entailed involvement of East European economies through CMEA

mechanisms in the move from extensive to intensive economic development, and in the transformation of the CMEA model of cooperation. Initially this represented the continuation of a long-term strategy of cooperation of CMEA members adopted by the Economic Summit Conference of CMEA member countries in June 1984. As mentioned in chapter 3, the Conference identified as priority areas for cooperation: the acceleration of scientific-technical progress, cooperation in machine building, radio electronics, automation and ensuring sufficient supplies of fuels and raw materials to meet the needs of national economies (*Pravda* 16 June 1984).

Accordingly, in the mid-1980s the main emphasis of CMEA strategy was placed on cooperation in the machine building industry, primarily in production with a high input of modern technology which was regarded as a key determinant of scientific-technological progress in all the branches of the national economy (*Ekon. sotr.* 1986: 6, 18). Hanson (1987b) noted that this strategy was designed to promote the new investment in machinery which the USSR for the realisation of *perestroika*. Soviet plans envisaged a rapid growth of investment in new equipment (a 35-40 per cent rise in machinery investment) in particular in the engineering sector and the electronics-related branches. Growth of that order would, however, required a considerable growth in machinery imports. With balance of payments difficulties likely to limit Soviet purchasing of Western machinery, the Soviet Union resorted to using East European countries as the alternative source.

Another important area of cooperation was securing the requirements in fuels and raw materials. In order to meet these needs the 40th Council Session adopted a number of major programs such as the Program for Cooperation in Economising and Making Rational Use of Material Resources up to the Year 2000, entailing 117 joint cooperation measures, the program of development of the fuel, power and raw material base of the national economies, the program for the construction of atomic power stations and atomic heating plants up to the year 2000 including the

Khmelnitsky Atomic Power Station, and a general agreement on specialisation and cooperation in the field of chemical products (*Ekonomika* 1986:5, 5).

Following the 41st (extraordinary) Council Session in December 1985, CMEA strategy followed the Soviet economic priorities outlined in Gorbachev's strategy of acceleration of economic growth and reform of foreign trade management. The fundamental objective of the CMEA was the development and implementation of a coordinated policy in science and technology. It was seen as a means to transform the CMEA model of cooperation from the predominance of trade ties to specialisation and cooperation of production, and the transition from trade in energy and raw materials to trade in manufactures and equipment. The strategy was also to overcome the West's lead in technology and strengthen the economic competitiveness of CMEA members in the world market by adjusting development directions to its requirements (*Pravda* 4 March 1986; *Ekonomika* 1986:6, 9-20).

The main instrument of this strategy was the Comprehensive Program for the Scientific and Technical Progress of the CMEA Member Countries up to the Year 2000 (CPSTP) which was adopted by the 41st (extraordinary) Session on 17 December 1985. The Program set out as its specific goals: the development of competitive technologies, the expansion of advanced technology industries and the intensification of development on the basis of international specialization and cooperation in production. This was expected to double labour productivity, improve the quality of products, lead to more efficient use of energy and raw materials, liquidate backwardness relative to the advanced industrial countries and increase independence from the capitalist countries (*Pravda* 18 December 1985).

The common science and technology policy was to be based on coordinated undertakings in the elaboration and application of new kinds of technologies and materials in the five areas of scientific research designated for accelerated

development throughout the bloc. These priority areas included: electronics, the comprehensive automation of production processes, particularly in the area of the machine-tool and engineering industries, the development of the nuclear power industry, the development of new materials and technology, and biotechnology. The work on forty developmental projects covered by the CPSTP was to be completed and lead to the introduction of new technologies in the course of the 1986-1990 plan. The program included ninety-three specific projects which were to be pursued jointly by seven hundred scientific organisations and research and development bodies of the member countries. Their cooperation was to be based on direct cooperation between self-financing enterprises and economic organisations of the CMEA member countries in research, design and experimental work, and in exchanging scientific-technical documentation. The full responsibility for the supervision and management of the whole process of development and implementation of the cooperation programs belonged to the Leading Organisations: Soviet scientific and research institutes and enterprises (*Ekon sotr.* 1986:1, 2-13).

The objectives of CPSTP were intended to set the investment priorities for the 1986-90 national plans and be taken into account during the coordination of economic plans. Its provisions were obligatory for member countries who were also responsible for securing the material and financial means for the implementation of CPSTP projects. This was achieved by the imposition on CMEA members of a formal requirement to include in their national plans obligations arising from the Comprehensive Program (*Ekon sotr.* 1986:1, 20).

The conception of the CPSTP was a Soviet proposal developed on the initiative of the CPSU Central Committee Department for Socialist Countries in the early 1984. It was patterned after a similar comprehensive program which was developed in the Soviet Union in the 1970s. The original proposal of the CPSTP outlined a coherent program formulating the goals and proposing creating a structure with

sufficient authority and resources to develop a science and technology policy for CMEA members under Soviet supervision. To this aim it introduced extensive organisational reforms of the CMEA structure aimed at creating bodies with authority to develop a science and technology policy that would be obligatory for all the countries. CMEA members were to include CPSTP projects in the national plans and conclude agreements to ensure the implementation of the program. At the top of the management structure were five new CMEA committees with considerable powers which were to supervise the five priority areas. The second level was to consist of five program councils of scientists and specialists responsible for solving specific problems connected with the implementation of programs. Finally, for the operational tasks of managing five programs there were Leading Organisations empowered to make commitments on behalf of member countries including allocation of projects and distributing funds. The objective was to introduce an element of accountability into the mechanisms by charging the Leading Organisations with responsibility for achieving the goals set forth in the program and delegating to them enough authority to compel the cooperation of organisations from the other countries (Stone 1996, 181). The initial proposals included also the formation of a Scientific and Technological Center to monitor the entire process of development and implementation of the CPSTP to ensure the logical connection of topics of research (Stone 1996, 176-9).¹

Thus the original design of the CPSTP presupposed pooling scientific resources, 'breaking the national ties of the cooperating organisations, incorporating them into an international system of management to ensure the fulfilment of international obligations and creating a structure of accountability that could monitor progress' (Leontiev in Stone 1996, 180). This design was aimed at overcoming those

¹Stone has compared eight successive draft versions of CPSTP, including the adopted version and analyses the process of elimination of proposals to which East European countries objected for political and economic reasons.

structural barriers inherent in the centrally planned economies and the CMEA organisational structure which inhibited the transformation of basic scientific research into applied technology and which also obstructed technology transfers between sectors in national economies and between organisations in individual CMEA countries. These obstacles to technological development resulted from the isolation of organisations active in different sectors of national economies, and the isolation of organisations working in individual CMEA countries caused by the sectoral structure of the CMEA and the institutionalised isolation of national economies.

This original proposal represented thus yet another Soviet attempt to solve the problems of integration by the imposition of supranational structures which could control the implementation of policy by East European countries and a series of organisational adjustments. The Program did not however introduce any changes in domestic systems of management and traditional mechanisms of cooperation which would introduce incentives for enterprises to introduce innovations into production and overcome barriers to technological development and transfers of technology between individual sectors of national economy and between individual countries.

East European countries approved the original Soviet proposal to develop the CPSTP which was discussed and adopted by June 1984 Conference (Stone 1996, 174-6). However during the ensuing process of negotiations of successive drafts they all rejected the proposals of pooling scientific resources and creating supranational organisations such as the Scientific Center and five smaller centers to supervise priority areas. They also unanimously opposed creating a system of joint funding for the projects which would allow the leading organisations to finance the projects and purchase the scientific research results (Monkiewicz 1988, 140-1). The CPSTP left the issue of the determination of the national shares of participation to be decided in the next phase.

The reasons for their objections were that they saw this strategy as encroaching upon their economic sovereignty and as benefiting primarily the Soviet economy. Firstly, East European countries feared the political and economic implications of incorporating their national economic organisations into an international system of management under Soviet supervision (Stone 1996, 177-9). They also resisted setting up of joint funds controlled by leading organisations because under CMEA rules there were no provisions concerning the legal protection of intellectual property and know-how (Bielen 1996, 31). Contributing countries would thus not have control over scientific results and in the end their research would increase the productivity of industries in other socialist countries. In particular, they feared that export of scientific research would ultimately contribute to improving the technical level of Soviet manufactures and that they would eventually lose the Soviet market for their technological products. According to East European officials involved in the formulation and implementation of the CPSTP, East European participants viewed the joint funds as serving primarily Soviet interests. In their opinion the CPSTP represented a one-way flow of technology to the Soviet Union, a claim supported by the withdrawal by the Soviet Union from the program of its own most advanced technology, on the pretext that it had military applications (Stone 1996, 187).¹

Another reason for Eastern European's lack of enthusiasm for CPSTP was their interest in Western technology which was superior to Soviet bloc. This interest conflicted with the stated Soviet objective that the strategy was to achieve accelerated modernisation of the Soviet bloc economies with technology generated primarily within the bloc. This direction towards substantial technological independence of CMEA countries from imports from capitalist countries was espoused by Gorbachev

¹ Needless to say, these claims were vehemently criticised by Soviet analysts who denied that the Soviet Union derived any special benefits from the CPTSP. They maintained that CMEA cooperation is conducted on the principle of equality. They denied that the coordination of economic policies within CMEA was an instrument of exerting economic pressure on East European countries by the Soviet Union (*Ekonom. sotrud. stran chlenov SEV* 1986:5, 85).

at the April Plenum of the CC CPSU in 1985 as essential to strengthen the technical and economic invulnerability of the CMEA states to the aggressive policies of the USA, Western Europe and Japan, described as 'the main centers of imperialism' (*Kommunist* 1985: 7, 16-8). At the 40th Council Session in 1985 Gorbachev expressed confidence that the CMEA would become more robust and thus 'nullify the policy of economic pressure actively pursued by the West towards the socialist countries' (*Pravda* 27 June 1985. 1).

From the Soviet perspective this logic was consistent with the continuing tensions in relations with the West and its desire to develop an independent technological base in fear of sanctions. Furthermore, controlling the degree of Eastern European dependence on Western technology allowed the Soviet Union to control the development of economic relations with the West which were perceived by the Soviet Union as threatening the maintenance of power and stability in Eastern Europe (Miller 1991, 116). For the East European economies, however, this pressure for their participation in the Soviet strategy of technology-based economic expansion meant a relative loss in terms of forgone opportunities of cooperation with the West. By participation in the CPSTP they were also forced to direct their research and investments towards the specialised Soviet market instead of towards the mainstream world market.

The final CPSTP version preserved the original Soviet objectives of using CMEA to harness the economic potential of Eastern European countries to modernise the Soviet economy and increase its economic control over Eastern Europe. Thus, the five designated areas of the CPSTP were evidently the same as the sectoral priorities singled out for accelerated development in the Draft Basic Guidelines for the Economic and Social Development of the USSR presented at the 27th CPSU Congress two months later and adopted in the 12th five-year plan. Furthermore, the organisation and management of the process of implementing the

CPSTP was designed to secure closer organisational integration of selected areas of national economies under Soviet direction. In all ninety three specific CPSTP project areas the Leading Organizations responsible for the direction and coordination of research and for the completion of the projects were Soviet research institutes. The overall coordination of cooperation and application of scientific research to production also belonged to sixteen Soviet organisations, the so called Inter-Branch Scientific and Technical Complexes. The Leading Organisations were given wide responsibilities for the organisation and coordination of priority problems, for quality control and the completion of the projects by the established deadlines (Monkiewicz 1988, 140).

The Soviet Union also managed to retain the policy goal of minimising reliance on Western technology. On the occasion of signing of the CPSTP the Soviet Prime Minister Nikolai Ryzhkov explained that it was politically necessary to reduce reliance on Western high-technology imports as the West was using technology as an economic weapon against the Soviet Union and its allies in the form of Co-com lists, sanctions and boycotts (*Trybuna Ludu* 17 December 1985).

However the CPSTP lacked crucial element: the management structures did not have sufficient resources and authority necessary to develop a science and technology policy for entire CMEA. Without an authoritative superstructure to implement Soviet objectives the Soviet Union had effectively to rely on traditional institutional arrangements of CMEA economies which created barriers to dynamic efficiency by obstructing innovation and improvement of quality.

The direct ties in CMEA cooperation. The general principles of their operation and rights of the participants.

As mentioned in chapter 3, the idea of the reform of CMEA mechanisms based on the participation of autonomous and self-financing enterprises originated at the

CMEA Economic Summit in 1984. Under Gorbachev the development of direct cooperation between enterprises, research institutes and the creation of joint ventures became a key instrument of implementation of the CPSTP, one of the main forms of expanding ties in CMEA cooperation and subsequently a part of the strategy of the development of a 'common' CMEA market described in the next part of the chapter. Direct cooperation was to include all the stages of research and production as well as joint construction of new productive capacity and the development of cooperation on the basis of intra-sectoral specialisation (Kurowski 1987, 21).

The principles governing direct cooperation between enterprises, outlined in the agreements signed at that time, were consistent with relevant legislation underlying Soviet foreign trade reform increasing the rights of enterprises and expanding the role for cooperatives and the creation of the organisational, legal and financial conditions for their operation. The Soviet Union pressured other member countries to make appropriate changes in their domestic legislation and to introduce economic and organizational conditions to enable enterprises to conduct foreign trade on the basis of full economic accountability and self-financing. It also initiated the signing of inter-governmental agreements on direct contracts between their own and Soviet enterprises and the creation of joint enterprises with individual CMEA members in line with bilateral agreements concluded under the CPSTP.

In line with Soviet legislation, enterprises and other economic organisations entitled to establish direct links had a right to choose independently their partners in other CMEA countries, determine the objectives and conditions of cooperation, set prices, and sign appropriate protocols, agreements and foreign trade contracts, and use a part of their foreign earnings for their own production programs (*Ekon. sotr.* 1988: 2, 4-9). Similarly, with regard to joint enterprises, the agreements stipulated that the enterprises had to be self-financing, profitable and mutually beneficial. Article 9 of the Polish-Soviet agreement stipulated that joint enterprises had a right to

elaborate and approve their own plans of production. Thus they were not subject to state planning and state authorities could not set any plan targets for them to fulfil. However, in line with the principles of the Soviet economic system, their plans still had to be harmonised with the development plans of relevant sectors of both countries.

These new forms of participation of CMEA economic organisations were proclaimed as a key part of a new, more effective economic mechanism of cooperation with less administrative fiat, fewer commissions and committees and which placed intra-bloc economic ties on a more economically rational basis (*Pravda* 19 April 1986; *Pravda* 6 November 1986, 4).¹ The increase in the legal and economic autonomy of enterprises was designed to give producers an increased interest in expanding the production of goods for export and force them to introduce technological innovations and improve the quality of products or face bankruptcy (*Rynki Zagraniczne* 23 January 1987, 3-4). Thus direct links were seen as the most effective means of raising efficiency of production, improvement of technological processes, assimilation of modern methods and management of production, and ultimately improvement of quality and competitiveness of products (*Rynki Zagraniczne* 23 January 1987). They were also regarded as the primary instrument for the radical transformation of the traditional model of cooperation by ensuring a shift from primarily trade ties to extensive specialization and cooperation links and increasing supplies of goods produced on a cooperative basis (Spandarian and Shmelev 1988, 18).

These changes in the independence of enterprises and facilitation of their direct cooperation were designed to by-pass the state monopoly of foreign trade which was the main barrier to direct cooperation between producers and research groups and the setting up of joint enterprises in centrally planned economies. Cooperating

¹The working session of the leaders of the CMEA countries held in Moscow in November.

enterprises could by-pass mechanisms of control over foreign trade inherent in the centrally planned economies, and thus operate outside the state controlled system of allocation and distribution of resources (Zielinski 1987, 7). Direct ties were also to be a remedy against the constraints resulting from the system of rigid bilateral agreements (Bogacka 1986, 7). The cooperation of enterprises operating under the arrangements of the CPSTP was to overcome barriers obstructing technology transfers between individual economies, caused by their institutionalised isolation.

Thus the design of the reform presupposed breaking the national ties of the cooperating organisations. This form of cooperation, therefore, implied a violation of one of the fundamental ideological principles of the social ownership of the means of production allowing the state and its agencies in each socialist country to control planning, production and distribution of resources.¹ This principle, which, as discussed in chapter 2, was embodied in CMEA procedural rules, enabled East European countries to protect their national interests by opposing these forms of cooperation which were perceived by them as encroaching upon their decision-making powers. As a consequence, direct links were seen by East Europeans as an attempt to establish an alternative way of participation in economic cooperation independent of the national state.

This raised East European fears that joint enterprises and the direct cooperation between enterprises could be a more effective way of integration of selected areas of bloc economies under Soviet direction than the existing methods of cooperation organized at the national level. For example, direct links could enable the appropriation of that part of East European high-quality production, that otherwise would be directed towards the West. As Staniszkis (1987, 32) observed, production of enterprises could be a priori allocated to meet the Soviet Union's needs, and

¹The salience of property relations for economic and political reform in socialist countries at that time is discussed by Miller (1989, 430-48).

would not be subject to the control of the national authorities. This led her to compare this form of cooperation to the presence of bridgeheads of the imperial centre directly inside the enterprises (Staniszki 1987, 48).

Another political objective implicit in the strategy of assigning an enterprise an active role in CMEA cooperation was the encouragement of systemic changes in national economic mechanisms based on increased independence of enterprises. This way a high degree of structural uniformity of national economies of member states would be ensured, which is a natural prerequisite for integration.

The implementation of this strategy began in 1985 with a Soviet-led political campaign promoting these forms of cooperation in Eastern Europe. For example, throughout 1985 all Polish-Soviet economic meetings at the higher policy levels discussed the need for 'a transition to a new stage in mutual economic cooperation, and search for new, higher forms of cooperation' (Baczynski 1988, 17). The official rationale advanced in support of these measures was to place economic cooperation on an economically rational basis. Thus, cooperation links were to be the result of the economic interests of partners and not of administrative decisions taken at the national level (Kuczynski 1989, 72).

The first results of this campaign came in October 1985 when the Soviet Union concluded contracts with Bulgaria on the creation of two joint ventures and the establishment of International Research and Production Associations. However a real breakthrough in putting policies into practice came in February 1986 when a Polish delegation at the highest level, led by the Head of the Polish-Soviet Commission on Economic and Scientific-Technological Cooperation and deputy Chairman of the Polish Planning Commission signed an agreement with the Soviet Union on the development of direct cooperation in the sphere of production and

science and technology between the economic organisations of both countries and the formation of the first five Polish-Soviet joint enterprises (Kuczynski 1989, 73).

The basic principles of the establishment and operation of these new forms of cooperation were elaborated a few months later on 15 October 1986 in agreements between the Soviet Union and Poland signed by the Soviet and Polish Prime Ministers. In addition to the earlier decision to establish five joint ventures, both countries agreed to form an additional seven: two in the Soviet Union and five in Poland. The protocol also listed 320 pairs of enterprises and research centers which were selected for this form of cooperation (*Polityka* 18 February 1988, 18). Similar bilateral inter-governmental agreements on the development of direct ties between economic organisations and the creation of joint enterprises were signed between the USSR and Bulgaria, Hungary, GDR and Czechoslovakia. In Czechoslovakia the agreement listed 76 enterprises, and in Bulgaria 103 (*Pravda* 9 November 1986).

The manner of making decisions on direct links and setting up joint enterprises, and the principles governing their formation and functioning reflected, however, more the Soviet determination to ensure a rapid expansion of direct links than a concern for their profitability. Thus, despite the stated policy that cooperation between enterprises should be supported by economic considerations, in most cases the establishment of such links was determined not by enterprises themselves on the basis of economic calculation but arbitrarily by administrative decisions from above (Zielinski 1987, 3; *Pravda* 28 September 1987, 5).

In Soviet-Polish relations the selection of enterprises and the facilitation of their cooperation was conducted by the Inter-governmental Polish-Soviet Commission (*Rynki Zagraniczne* 23 January 1987, 3-4). As Zbigniew Kurowski, a Polish government representative responsible for the development of direct cooperation stated, this approach was based on an assumption that the conclusion of an inter-

governmental agreement, nomination of enterprises and ordering them to cooperate would be sufficient to bring about the expected results (Baczynski 1988 b, 17). This 'directive' approach to cooperation was consistent with the long-standing ideological and 'rationalist' approach to economic policies characterising Soviet-type policies, which was identified in chapter 1. The approach was based on a belief that it is possible to manage effectively an economic system by means of control, pressure and imposition of objectives on economic organisations. As discussed earlier, this manner of thinking continued to characterise the first stage of Gorbachev's reform, which until 1988 was conducted within the framework of the traditional system and relied on traditional administrative measures such as allocation of capital investment to achieve growth in output and efficiency, and mobilisation of society by campaigns aimed at better organisation and discipline to activate perceived reserves in the system.

The strength of this belief in the effectiveness of administrative measures was indicated by the lists of enterprises selected for this form of cooperation. In the Soviet Union at the beginning of September 1986 in the machine industry alone 257 enterprises were selected for direct links in the sphere of production and research, and a further 99 planned to establish such cooperation. In Poland, by the end of 1986, there were nominated 100 pairs of Polish and Soviet production enterprises and 45 pairs of research units (Zielinski 1987, 3).

The extent of Soviet political pressure was also evident in the fact that feasibility studies determining the technical, legal, financial, and economic aspects of a potential partnership as well as the future tax and duty issues, were not undertaken until after agreements on cooperation had been signed (*Polityka* 20 February 1988, 17).

Soviet pressure to establish direct links and joint ventures regardless of economic considerations was interpreted by East Europeans as motivated by a desire to ensure the exercise of Soviet influence over the cooperation of enterprises. This interpretation was further confirmed by the terms of the establishment of joint enterprises, proposed by the Soviet side, such as a provision that joint ventures should be formed on the basis of common ownership of capital. This would allow the Soviet side to exercise control over the operation of the enterprise, even if it was not located on its territory. Accordingly, the intention to establish 44 Polish-Soviet joint enterprises on terms outlined in Soviet legislation was interpreted by Polish both dissidents and policy-makers as representing a threat of incorporating the Polish economy into the Soviet management system (Kuczynski 1989, 72).

In order to protect its national interests, the Polish government insisted, therefore, on provisions which would minimise the danger of joint enterprises making decisions which could lead to unprofitable exports. For example, in accordance with the principle of self-financing, the Polish-Soviet agreement prescribed strict requirements of profitability for joint enterprises to ensure that they could not be created under political pressure and later subsidised by the state. Article 3 of the agreement stated that a decision to establish a joint enterprise was conditional on the positive outcome of a comprehensive feasibility study to determine the technical, legal, financial, and economic aspects of a potential partnership (*Rynki Zagraniczne* 23 January 1987, 3-4). Moreover, the Polish side used this provision to insist that self-financing extended to the export activities of the enterprises. In other words, Poland wanted to preempt the possibility of financing the export activities of joint enterprises, which in this context meant also the subsidisation of the Soviet side.

Furthermore, in July 1987 Poland raised objections to the Soviet position and insisted that the sides participating in a joint enterprise retain their individual property

rights. Following high-level talks including the Polish and Soviet Prime Ministers and Mikhail Gorbachev, the Polish proposal was accepted in May 1988 (*Trybuna Ludu* 28-29 May 1988, 1). The resulting Polish-Soviet agreement allowed for the formation of joint enterprises on the basis of Polish legislation which ensured Polish control over the Polish part of the capital contribution.

These legal arrangements were, however, specific to Polish-Soviet relations. Poland seemed to be the most enthusiastic supporter of these forms of cooperation, while at the same time making sure that independent enterprises would not take decisions which were economically unsound. Bulgaria acquiesced in inter-enterprise contracts with Soviet organisations. Hungary, Czechoslovakia and East Germany, while paying lip-service to the expansion of direct ties at the CMEA level, in practice avoided involvement of their enterprises in these forms of integration by careful monitoring of their initiatives to exclude projects unviable economically. They were afraid that under the existing pricing and monetary systems enterprises might be obliged to export domestically subsidised goods (Stone 1996, 223-4). Romania chose the most radical form of protecting its control over its national economy by refusing to participate in the CMEA strategy altogether.

Given the principles of Gorbachev's economic reforms which envisaged the expansion of the rights of enterprises and enhancement of their independence and responsibilities within the framework of the centrally planned economy, it is quite likely that he believed that direct cooperation of enterprises would be an effective method of ensuring economic subordination of CMEA economies to the Soviet Union by indirect methods. For this method of cooperation to encroach on state control of the national economy enterprises would have to enjoy the genuine autonomy. This would require, however, comprehensive reforms entailing the active role of economic instruments such as prices, exchange rates and convertibility of the currency - which were not considered at that stage in any of the Soviet bloc

countries. Thus, in practice, the possibility, that these projects would not be fully subject to the central planning authorities in each country and could infringe the sovereignty of national economies was rather remote. Furthermore, some autonomous profit-making enterprises would be interested and capable of cooperation with Western firms and thus dependence on the Soviet economy would be counterbalanced by economic cooperation with the West.

Conclusion.

This section demonstrated that the decision-making process on CMEA integration was dominated first of all by the Soviet Union's domestic priorities which were conditioned by a deteriorating economic performance and by an economic reform program including foreign trade reform. Moreover, they were influenced by political tensions in relations with the West which limited Soviet access to Western technology. Accordingly, CMEA methods of cooperation were based on the same assumptions which underlie Soviet domestic policies. Firstly, that a combination of administrative instruments and limited autonomy of enterprises could create the conditions for the efficient operation of an economic mechanism. Secondly, that the Soviet-type economies were able to achieve independently world technological standards and eliminate the technology gap between the Soviet bloc and Western economies.

The CMEA strategy was also a function of the continuation of the Soviet policy of domination of East European countries. Thus CMEA was to serve its traditional dual function of a direct instrument of economic cooperation and an indirect one of securing the political cohesion of the Soviet bloc countries and effective coordination of bloc initiatives toward the outside world. CMEA was also used to ensure that East Europeans contributed to the achievement of Soviet domestic economic objectives

and to the improvement of the structure of exchanges, as well as render existing trade relations more profitable from the point of view of Soviet interests.

On the other hand CMEA strategy was shaped by Eastern European attempts to secure their economic objectives and favourable terms of cooperation. As a consequence East European countries began to oppose the CPSTP from the initial stages of its formulation. They opposed the creation of bodies and mechanisms which could encroach upon the national authorities' powers, and resisted forms of cooperation which could not contribute to their domestic objectives. Their objections and assertion of political and economic interests affected the development of strategies to the point where the CPSTP represented only a shadow of the original Soviet concept. Similarly, East European countries made sure that direct cooperation and joint enterprises do not engage in operations which would result in unprofitable transactions.

Soviet policies towards Eastern Europe and the CMEA's functions between late 1987 and late 1989. Soviet domestic economic situation and the principles of the reform program.

Towards late 1987 Soviet economic reforms assumed a new direction with the adoption by the Supreme Soviet in June 1987 of two central reform documents: the 'Law on State Enterprises' (Associations) and the 'Basic Provisions for the Fundamental Restructuring of Economic Management'. In July they were complemented by a large number of related decrees on planning, material supplies, financial mechanisms, price formation, banking, statistics, branch ministries, republican organs and social policy. They came into effect on 1 January 1988. The whole process of reform was to be completed before the introduction of the 13th Five Year Plan in 1991. This radicalisation of economic reform began when the failure of the first phase of reform was evident, as the original measures had not

resulted in growth in the net material product and the restructuring of investment was not successful (Aslund 1991, 88).¹

The main feature of the economic reforms was a significant increase in the formal economic independence of enterprises. They were accorded legal rights to draw their annual and five-year plans independently. Furthermore, the decree on the finance mechanism envisaged a well-conceived system of long-term stable economic coefficients and financial norms prohibiting the confiscation of enterprise profits and the interference of ministries in the financial activities of enterprises.

However, this formal independence was limited by a number of provisions. For example, in exercising these rights enterprises were constrained by an obligation to consider four categories of plan directives and instruments of an indirect nature. One category was state orders which replaced delivery targets but were to play effectively the same role of safeguarding the interests of the state. The only difference was that the state orders were supposed to cover particularly important production (*Pravda* 1 June 1987).² Furthermore, although the reform postulated 'a decisive transition' from centralised allocation to wholesale trade in the means of production, it was to be implemented gradually over four to five years, and the distribution of the means of production 'of particularly great economic importance' was still subject to the traditional allocation system (O korennoi perestroike 1987, 111).

The financial independence of enterprises was also limited by the lack of changes in the pricing system. Despite the postulated gradual introduction of new prices

¹In the specific areas the realisation of the investment campaign in machine-building resulted in an increase in new assets of just 3 per cent after an increase in investment of 15 per cent (Gaidar 1988, 45). Half of the investment volume remained in raw material extraction and agriculture because energy production was necessary for hard currency earnings.

²In August 1987 Gosplan officials said that state orders would on average cover only 50-70 per cent of the production volume (*Pravda* 18 August 1987). The concept of state order was introduced in Poland in the economic reform launched in 1982, where state orders were supposed to cover particularly important production. Since they were accompanied with better supplies, enterprises rushed for state orders, which minimised the marketisation of the economy. The same happened in the Soviet Union.

which should be brought closer to those on the world market, the relevant decree did not make provisions for price increases. It also preserved the centralised basis of the price-setting process with the acknowledgement of the right of the State Price Committee (Goskomsten) to set and control prices of basic kinds of fuels, raw materials and of final production of the all-state plans (O korennoi perestroike, 1987, 150-64).

The implementation of the reform based on these principles failed to achieve its objectives and led to a gradual deterioration in the Soviet domestic economic situation. According to official estimates, the rates of growth recorded between 1986 and 1989 averaged 3.7 per cent. This was exactly the rate achieved in the 'stagnation' years of the late 1970s and early 1980s. Independent economists calculated the growth of national income in 1988 at the level of 0.3 per cent, and noted a virtual decline in Soviet national income in 1989. Furthermore, the effectiveness of the economy measured by savings in the use of resources had been five times worse than in the first half of the 1980s and the situation in the consumer market had deteriorated (White 1992, 120-23).

The deepening domestic economic crisis was exacerbated, moreover, by the fall in Soviet hard-currency earnings first registered in 1986, caused primarily by the falling levels of Soviet oil production resulting from obsolete equipment, rising marginal costs as exploitation moved deeper into Siberia, and strikes. Another contributing factor was a drop in world oil prices in the late 1980s. Since four-fifths of Soviet hard-currency export earnings in the developed West came from sales of oil and gas, this situation was bound to have a significant effect on the Soviet economy. The main effects were a growing foreign debt and a reduction of imports from the West, which affected the replacement and expansion of production capacity and compelled the Soviet Union to make scarce resources available for export

(*Pravda* July 7, 1988). These losses in foreign exchange were further exacerbated by agricultural failures which necessitated large hard currency imports of food.

Soviet foreign policy towards the West.

The need to ease domestic economic problems and secure Soviet status in international politics prompted a serious re-evaluation of Soviet foreign policy objectives. The first indications of a new direction in Soviet foreign and security policy aimed at improvement of relations with the USA and Western European countries took place soon after Gorbachev came to power.¹ However, it took the Soviet leadership another three years to develop this new orientation in Soviet policy, described as the new political thinking, into a coherent system of ideas and to adopt appropriate means of its implementation.

At the ideological level, central to the new political thinking was the concept of the interdependence of all states and the necessity of their cooperation in solving global social, economic and security problems. It was also characterised by the rejection of a class approach to international relations and aggressive ideological prescriptions in determining Soviet foreign policy. This led to an emphasis on political and diplomatic rather than military means in attaining foreign policy objectives, the peaceful settlement of regional disputes and a commitment to the principle of non-interference in internal affairs which, from 1987 was extended to socialist states.² In strategic terms the new political thinking manifested itself, apart from idealistic proposals of global disarmament, in concrete proposals on arms

¹The first occasion for Gorbachev to outline the agenda of Soviet policy towards Western Europe was his visit to France in October 1985. Gorbachev declared that force was a less useful as well as less legitimate means for securing foreign policy objectives and hence security should be achieved by means of peaceful coexistence, cooperation, detente and disarmament (Trofimenko 1991, 9-10).

²In his book explaining the ideas of *perestroika* to Western readers he endorsed the principle of freedom of every nation 'to choose its own way of development, to dispose of its fate, its territory, and its human and natural resources' as necessary for the normalization of international relations (Gorbachev 1987, 177).

control at all levels between the superpowers.¹ This initiative was particularly important for East European states, because it implied a reassessment of Soviet views of desirable methods of ensuring its security.²

The inauguration of a new Soviet foreign policy orientation did not lead immediately, however, to an improvement of Soviet relations with capitalist countries. Initially, the dominant Western response during this period was that new political thinking was largely tactical and did not represent a genuine break with previous Soviet foreign policy. For example, the advocacy of arms control was perceived as a means to promote splits inside NATO. This scepticism was further fuelled by the continuing Soviet intervention in Afghanistan and the Soviet-supported Vietnamese occupation of Cambodia. Furthermore, the USA was not prepared to enter into agreements on arms limitations unless they satisfied its requirements for securing defence and deterrence (Miller 1991, 77-8).

In December 1987, however, the signing of the Soviet-American INF (Intermediate-Range Nuclear Forces) Treaty meant that the first major breakthrough in relations with the capitalist world was achieved. This was followed by negotiations on strategic arms limitations (START) and on reductions in Soviet military forces in Europe as part of a comprehensive deal with the Western alliance on conventional arms.³

¹In January 1986 Gorbachev advanced an idealistic proposal to rid the world of nuclear arms by the year 2000 (*Kommunist* 1986:4).

²See as an example the Communiqué on the Conference of the Political Consultative Committee of the Warsaw Treaty Member-States (*Pravda* 12 June 1986, 1-2) which called for the cessation of nuclear tests, the complete elimination on a mutual basis of Soviet and American medium-range missiles in the European zone, the achievement of accords on nuclear and space arms, the elimination of chemical weapons, a substantial reduction of armed forces and conventional arms on a global and regional level, verification of arms reduction and disarmament. It also acknowledged that states may pursue different paths to socialism and that difference in economic and political systems does not constitute grounds in and of itself for foreign policy disputes.

³The Soviet proposal meant cutting 1.26 million troops and tens of thousands of tanks, artillery and armoured vehicles and personnel carriers. The new Soviet proposal would require withdrawing at least 45,000 Soviet troops from Eastern Europe beyond the 240,000 troops being eliminated unilaterally before 1991.

The improvement of Soviet relations with the capitalist states also opened up new prospects of securing cooperation from the West to assist in the reform of the Soviet economy and its technological modernisation. The Soviet Union began to indicate its interest in the expansion of economic links with the West in early 1986. For example, in February 1986 Ryzhkov advocated the development of East-West trade, and promised an opening of the Soviet market to Western investment. He also blamed Western discrimination, embargoes and trade and credit restrictions for hampering possibilities for a considerable development of economic relations. In connection with the reform in foreign trade in August 1986 the Soviet Union also changed its long-standing policy towards the General Agreement on Tariff and Trade (GATT), expressing its interest in becoming a full member. The Soviets also changed their position on membership of major world economic and trade organisations such as the IMF and the World Bank.

Following the successful conclusion of INF treaty the American and West European governments made it clear that they were willing to reward political liberalisation and market-oriented reforms in the CMEA with economic support and Western Europe resumed commercial negotiations with Eastern Europe (Sobell 1989 d).¹ They also responded to Soviet invitations to invest in joint ventures which increased the possibility of more direct forms of technological transfers through joint ventures. The West however continued to maintain barriers to the transfer of technology to the Soviet Union through the Co-ordinating Committee for Multilateral Export Controls (COCOM).

The reevaluation of the relative importance of Eastern Europe in Soviet foreign policy.

¹In April 1988 Soviet and the US major commercial firms formed consortia to improve long-term commercial relations.

The first indications of possible changes in the Soviet leadership's attitudes to other bloc countries took place in the second half of 1987. Gorbachev used a series of visits to Eastern Europe to distance himself carefully from some of the policies of his predecessors and indicated his support for greater autonomy of the bloc states.

This shift was ideologically consistent with the commitment to non-interference as a priority principle of the 'new political thinking' of Soviet foreign policy. Gorbachev specifically referred to the non-interference principle and the right of choice as applicable to intra-bloc relations in his speech on 2 November 1987 on the occasion of the 70th anniversary of the Bolshevik revolution. His statement seemingly reaffirmed Khrushchev's formula of different roads to socialism and the principles of relations among socialist countries. While stating that 'all parties are fully and irreversibly independent' and recognizing 'the responsibility of the ruling party for the affairs of its own country', he still referred to the damage which could be done 'by a weakening of the internationalist principle in mutual relations of socialist states, by deviation from the principles of mutual benefit and mutual aid'.

However, Gorbachev clearly had a different understanding from his predecessors of the actual meaning of socialist internationalism and the conditions in which it should be applied. In an unequivocal manner he recognised the unconditional national and social diversity of the world of socialism and rejected the notion of a single model. He emphatically stated, 'unity does not at all mean identity and uniformity. We have become convinced that socialism does not and cannot have any 'model' that everyone must measure up to.' (*Pravda* 3 November 1987).¹

Statements unequivocally espousing the complete independence of Soviet bloc countries in the pursuit of domestic policies continued throughout 1988. For instance the joint Soviet-Polish communique issued after Gorbachev's visit to

¹Gerasimov proclaimed the free choice principle in an interview in Washington in December 1987 (Radio Liberty RL 492/87, 4 December 1987, 12)

Poland in July 1988, while routinely invoking the principles of mutual respect, equality and mutual benefit, also stressed each country's right to resolve questions of its development as a sovereign state and to determine the ways and means to construct socialism independently (*Rynki Zagraniczne* 11 July 1988, 1).

A very definite sign of the Soviet commitment to a new direction in its foreign policy towards Eastern Europe was Soviet reaction in favour of dialogue between the Polish party and Solidarity and the prospects of Solidarity's legalization. For example a senior CPSU spokesman Nikolai Shishlin said in an interview with *Le Monde* (6 September 1988) that the question of Solidarity's re-legalization was purely an internal matter for the Polish authorities. He also remarked that 'The men who participated in Solidarity are now capable of playing a more important role' and added that 'in our religion union pluralism contains no heresy' (quoted in Sobell 1988g).

This new approach of non-interference in the internal affairs of Eastern European states was reaffirmed in a long series of Soviet statements condemning previous methods of pressure.¹ During his visit to Beijing Gorbachev emphatically renounced the Soviet Union's right to prescribe models of socialism and of the obligations associated with that right. He admitted that the attempt to prescribe models in the past had been the cause of 'many difficulties in the development of world socialism' and declared: 'We are not the model' (*The Age* 18 May 1989, 7).

¹In June 1989 in his speech to the European Parliament, Gorbachev reiterated the Soviet Union's adherence to a policy of non-interference in the affairs of other countries. He stressed that 'social change is the exclusive affair of the people of that country and is their choice' and that 'any interference in domestic affairs and any attempts to restrict the sovereignty of states, be they friends, allies or any others, are inadmissible' (*Pravda* 7 July 1987, 1). Speaking at the Warsaw Pact summit held in Bucharest in July 1989, Gorbachev emphasised that there is no universal model for building socialism, and each communist party had to pursue its own strategy in line with its national conditions. He also endorsed 'full equality of rights, respect for each fraternal party's independence in solving national questions' and conceded that no one had a monopoly on truth. His remarks were subsequently reaffirmed in the official communique.

Even though these pronouncements did not directly address the question of the Brezhnev Doctrine and did not constitute a formal policy of renunciation of control over Eastern Europe, they clearly played the same function. As argued in chapter 1, uniformity of the socio-economic order and adherence to the Soviet model based on assertion of Soviet primacy were regarded in Soviet doctrine as essential conditions for the cohesion of the bloc. Therefore, the renunciation of the right to dictate the framework of acceptable policies implied that the Soviet Union was also prepared to renounce the methods of direct control and interference to assert its authority. This manifested itself in the new Soviet policy of securing its interests in Eastern Europe through influence rather than by political domination and control which had evolved since late 1987.

The principle of freedom of choice had, by implication, effectively removed the threat of Soviet intervention as an excuse for conservative East European regimes for not undertaking far-reaching internal reforms. This suggested that the Soviet Union no longer accepted responsibility for providing substantive political or economic assistance, including maintaining trade arrangements economically disadvantageous for the Soviet Union, and that the East European leaderships had to assume obligation for their own political as well as their countries economic survival. This position was demonstrated in allowing roundtable talks between Solidarity, the communist government and the Catholic Church on 6 February 1989 and not opposing re-legalisation of Solidarity on 5 April.

In Soviet economic policy towards the region this emphasis on the need for East Europeans to assume more responsibility for their economic growth dated back to the early 1980s when the price of oil on the CMEA market began to rise and, as a result, the capacity of Eastern European to purchase other goods for transferable roubles greatly diminished. The Soviet Union, however, insisted on the reduction of the deficit even at the cost of the stability of their domestic markets and the

redirection of goods meant for the Western markets to the Soviet market. This policy became even more pronounced since 1985, when the Soviet Union began to demand a change in the structure of East European exports, which had been originally erected to satisfy Soviet needs. Thus East Europeans were faced with the necessity of serious changes in the existing production structures to meet Soviet demands while at the same time facing a decline in Western demand for their low quality products (Inotai, 1988, 85). They were left with products which could not be sold outside the Soviet market.

A transition in Soviet foreign policy objectives in Eastern Europe from domination to influence did not mean that the Soviet Union stopped regarding the region as an integral part of its alliance system. The limits of their external autonomy were clearly defined by the Soviet Union's insistence on their continuing WTO membership and participation in CMEA.

Eastern Europe also featured together with the Soviet Union in Gorbachev's vision of future European political structures, in which the Soviet Union and Eastern Europe would constitute a part of 'a common European home' (*Polityka* 26 March 1988, 8). The idea of a common European home was launched by Gorbachev in April 1987 and expanded in his book on *perestroika*. It envisaged one Europe with two separate blocs and conceded to the United States rights of a visitor, not a tenant. While by the end of June 1989 the Soviet Union accepted the United States as 'a natural part of the European international political structure', Europe was still considered a two-bloc structure, albeit closely interacting economically (*Pravda* 7 June 1989). This was to change only with the disintegration of the Soviet control over Eastern Europe in late 1989, which will be discussed in the last section of this chapter.

CMEA in Soviet economic strategy towards Eastern Europe between late 1987 and late 1989.

The strategy which the CMEA was to pursue in connection with Soviet *perestroika* was outlined at the 43rd extraordinary CMEA session, which convened on 13-14 October 1987 in Moscow. It had been one year in preparation. Its initial provisions were discussed in November 1986 at a working meeting of the leaders of the parties of CMEA members and endorsed in September 1987 at a summit of party leaders.

The Session set out as a long-term CMEA strategy the gradual formation of conditions for an integrated common market among CMEA countries based on free movement of goods, services and other factors of production, and the gradual introduction of currency convertibility. This process entailed a corresponding reform of domestic and CMEA mechanisms aimed at creating conditions for transition to multilateral settlements and allowing enterprises the same access to markets in all the countries and to participate in direct ties. The participation of individual countries in the implementation of specific forms of cooperation was voluntary and based on the principle of interestedness (*Ekon. sotr.* 1988:1, 73-6).¹ The implementation of the program was premised on the successful realisation of the CPSTP whose provisions provided a frame of reference for the programs of economic and scientific-technological cooperation among individual CMEA members (Oniszczyk 1988a, 1).

The process of transition to an integrated market was based on the 'Collective Concept of the International Socialist Division of Labor for the period 1991-2005' which was adopted by the 44th Session in July 1988. It listed as its main objectives

¹The less developed non-European members: Vietnam, Cuba and Mongolia were also included in this program. They were to benefit additionally from their participation as a result of creation of conditions for accelerated economic development in line with the objective of 'gradual equalising of the levels of economic development of the European members of CMEA.' (*Ekon. Sotr.* 1988:1, 73-6).

a litany of traditional goals set for CMEA since 1971: the formation of the international socialist division of labour on an economically rational basis, the development of specialisation and cooperation, in particular in the machine-building industry, transition in cooperation from the sphere of trade to the sphere of production, intensification of scientific and technological progress, transition from the existing model of exchange of fuels and raw materials for finished goods, to one based on intra-sectoral cooperation of production and increase in the quality and technological level of production to meet the requirements of the world market (*Pravda* 6 July 1988).

These traditional goals were, however, to be implemented in a new framework. The new element of the strategy was the rejection of the idea of a separate socialist market, as a self-sufficient economic entity accompanied by the admission of failure of the self-imposed isolation from world economy. As Prime Minister Ryzhkov told the 44th Session:

At one time, ideas about the status of the Soviet Union and the entire socialist commonwealth in the world economy were based on the concept of the decline of a single world market, an ever-increasing gap between the socialist and capitalist economic complexes and the weakening of their ties with each other. Life has shown that this notion failed to take into account the scientific and technical revolution's powerful effect on modern-day production. Given the increasing interdependence of all states, our socialist market will be built in cooperation with the world economy and with a view to world market trends (*Pravda* 6 July 1988).

The postulated mechanisms of the implementation of the integrated socialist market.

The general conditions for the formation of an integrated socialist market were set out in 'The proposals regarding stages of restructuring of the mechanism of multilateral cooperation and socialist economic integration and functioning of CMEA' also approved by the 44th Council Session. The proposals outlined the following reforms in the areas of plan coordination, trade negotiations, CMEA pricing and monetary systems and legal reform of domestic regulations:

- the gradual transition in the area of plan coordination towards broader expansion of 'value' quotas in goods and the introduction of nonquota trade on a larger scale;
- the formation of legal and economic conditions facilitating direct links between enterprises, such as an increase in organisational and financial independence of enterprises in national economies and their right to conduct foreign trade transactions and to participate in direct ties and setting up joint enterprises.
- the gradual introduction of world market prices into intra-CMEA trade;
- the gradual introduction of mutual convertibility of national currencies and the transferable rouble and convertibility of the transferable rouble into convertible currencies;
- the creation of credit and currency markets;
- the development of new forms of direct trade relations between interested CMEA countries;
- the formation of a free trade area, then a customs union and a currency union;

- the elaboration and realisation of a common technological policy (Oniszczyk 1988b, 3).

The introduction of these conditions was to proceed in three stages until 2000. In the initial period, until 1990, the Collective Concept provided for changes in the existing procedures for plan coordination to accommodate the postulated active involvement of economic organisations in CMEA cooperation. These changes included the establishment of a third level of plan coordination at the enterprise or association level in addition to the existing intergovernmental and branch levels. This was to be accompanied by the gradual increase in plan coordination of goods not covered by fixed quantity quotas. The reduction of the volume of planned trade was to result in corresponding changes in the system of bilateral, rigidly balanced trade agreements and to allow greater initiative for enterprises. Liberalisation of trade was, however, limited to goods exchanged directly between enterprises within the framework of specialisation and cooperation of production agreements (*Rynki Zagraniczne* 7 October 1987, 1).

During this period, the principles of formation of intra-CMEA prices and the exchange rates mechanism were to remain unchanged. Changes in the financial and pricing system concerned only transactions conducted by joint enterprises and economic organisations participating in direct links, in the implementation of the CPSTP and conducting trade outside bilateral agreements. These changes included the use of national currencies in mutual settlements and the introduction of agreed prices, which reflected production costs (*Ekon. sotr.* 1988:1, 82).

Work on the improvement of the methodology for setting intra-CMEA prices was to be undertaken only in the second phase in relation to prices for the 1991-95 period (Karchin 1988; Oniszczyk 1988a). The introduction of proper economic conditions for multilateral cooperation, such as full convertibility of national

currencies or settlements in world market prices was planned to occur in the third phase, from 1996 until 2000 (Morag 1988, 12).

Despite terminology borrowed from the concept of West European integration, and an explicit commitment to the creation of conditions for the regulation of mutual cooperation by means of market instruments, in reality the Collective Concept did not represent a strategy towards a 'common market' regulated by market-based mechanisms of cooperation. Instead, 'market' regulation of economic processes within a socialist market was to be implemented by central planning bodies by means of an 'organic combination' of planned methods of cooperation with a growing role for commodity money instruments and considerable autonomy of enterprises (*Ekonsotr.* 1988:2, 10-9).

The main instrument for the coordination of economic policies was to remain the coordination of national plans, and the traditional system of inter-state bilateral agreements was to remain a principal means of regulating intra-CMEA exchanges (*Rynki Zagraniczne* 4 July 1988). Similarly, despite an increase in the independence of enterprises the central authorities were to retain considerable powers to regulate economic relations. Even in the conditions of a unified market in which enterprises and associations would have substantial autonomy, the states were to regulate economic processes and exert influence on the operation of enterprises with the help of indirect economic instruments that would correct their 'behaviour' and ensure the priority of mutual economic ties (*Izvestiia* 16 January 1988; Karchin 1988, 3; Nekipelov 1989, 42).

In accordance with the preservation of the principal role of CMEA planning mechanisms in regulating intra-bloc exchanges the reform of monetary relations was limited to overcoming the shortcomings of the existing financial system relying on the transferable rouble by the introduction of mutual convertibility of national

currencies and convertibility of the transferable rouble into other currencies. The ultimate objective was not, however, the abolition of the existing system and elimination of the transferable rouble, which was to remain a currency in which the major part of settlements was to be conducted (*Ekon sotr.* 1988:1, 82).

The reformist proposals of 'common market' had thus the same meaning as the reform of commodity-money instruments in the 1971 Comprehensive Program. As discussed in chapter 3, the Comprehensive Program was based likewise on the 'organic' combination of joint planning activities with the 'planned' use of commodity-money relations.

Soviet reformers still, however, maintained that the principle of 'organic combination' would transform CMEA into an effective organisation. Shirayev, a Soviet representative to CMEA, argued that the active functions of commodity-money instruments would allow decision-making process to be made on the basis of economic criteria and not political motives. Furthermore, considerable autonomy of enterprises was to increase the effectiveness of planning by allowing central bodies to concentrate on strategic issues. Consequently, a new three-tier procedure of plan coordination was to make possible more effective coordination of economic policies of individual CMEA members and more effective allocation of resources in selected areas (*Ekon sotr.* 1988: 1, 81).

Stanislaw Dlugosz, a deputy chairman of the Polish Planning Commission, outlined the following optimistic scenario assuming the involvement of several hundred thousands of enterprises, and thus representing a substantial share of the economy. In his vision the rights of enterprises to decide the terms of a transaction such as prices, or to use national currencies in direct settlements would generate a mechanism encouraging the coordination of national policies with regard to setting exchange rates at a realistic level, and forming domestic prices as well as introducing

various forms of convertibility among the national currencies which would create conditions for multilateral settlements. This would eliminate the need for bilateral balancing and lead to a reduction of goods covered by physical quotas and expansion of non-quota trade conducted by enterprises outside bilateral agreements. And conversely, progress in reform of the pricing-exchange rates system and changes in the character of inter-state trade agreements would in turn further stimulate the development of direct links between enterprises. Ultimately, the development of direct links was to contribute to free movement of goods, services and other factors of production and ultimately to the formation of an integrated common market among CMEA countries (*Rynki Zagraniczne* 23 January 1987, 3-4).¹

The reorganisation of CMEA's structure.

Development of new forms of integration at enterprise level and liberalisation of trade agreements raised the issue of corresponding changes in the functions of CMEA central organs. Proposals concerning new roles and structures for the Council in line with the restructuring of CMEA mechanisms were discussed initially at a summit of CMEA members in 1986, and were subsequently endorsed by the resolutions of the 43 Council Session.

The logic behind the proposed reorganisation of the CMEA's institutional structure was that the states and their organs, and thus CMEA bodies, were to retain their functions of planning and elaboration of strategies of integration while specific questions of production and technical cooperation were to be solved directly at the level of enterprises or international economic organisations. The highest CMEA bodies were to focus on the organisation of multilateral cooperation and on key problems of cooperation requiring inter-governmental coordination such as

¹ See also an interview with Stanisław Długosz 'Każdy zadecyduje o swoim interesie.' *Rynki Zagraniczne* 4 July 1988, 3 and 5.

consultations on long-term economic policies, elaboration of major long-term programs and multilateral agreements, reform of mechanisms of cooperation and domestic legal reforms allowing enterprises to participate in direct ties (Morag 1988, 14). The number of permanent organs was to be reduced by half. They were to be retained in those areas which required inter-governmental decisions such as the machine-building industry, transportation, joint planning, electronics, energy, scientific and technical cooperation, monetary and currency issues. The ultimate goal was to streamline decision-making process by not reproducing the branch structures of management that existed in individual countries. Instead the Council was to have permanent and temporary agencies to consider specific problems (*Rynki Zagraniczne* 11 July 1988, 3).

These recommendations were adopted by the 44th Session which decided to abolish and reorganise 19 organs and create by amalgamation six new ones (*Ekonom. sotr.* 1988:1, 85; Brabant 1989, 147-8). The number of CMEA standing commissions was reduced to 11. CMEA members also discussed plans to establish an international commercial bank to finance the operation of direct links and joint enterprises (*Rynki Zagraniczne* 14 October 1988).

Political and economic factors in decision-making.

This strategy was the outcome of the negotiation by individual CMEA members of a programmatic statement on CMEA reform, 'On perestroika of the Mechanism of Multilateral Cooperation.' This document was originally designed by the Soviet Union. The objectives and mechanisms of the strategy of 'integrated socialist market' were consistent with the objectives and principles of Gorbachev's *perestroika* and Soviet foreign trade reform. Likewise they were based on the assumption that the combination of centralised decision making and the autonomy of enterprises is an effective method of accelerating economic growth. Furthermore, the

proposals about gradual transition to negotiated prices and relaxation of physical quotas in trade conformed to the advancement of Soviet reform. At that stage conditions which would be necessary for the radical reform of CMEA, such as convertibility of the rouble were not a part of Soviet reform. The proposal also reflected the continuing determination to retain the basic features of the traditional model of cooperation, such as the planned regulation of CMEA cooperation conducted at the intergovernmental level, which made it possible for the Soviet authorities to employ instruments of political pressure on its East European partners.

The process of formulating the reform strategy accommodated East European members' attitudes to economic reforms and their commercial interests in preserving their own position in trade with the Soviet Union. East European countries were in favour of the radical reform of the CMEA at the most general level. However, they wanted the framework of reforms and the concrete means to suit their own political goals and particular economic interests. During the negotiations in preparation for the 43rd Session these preferences were reflected in fundamental differences regarding the proposed transformation. In terms of general principles the positions of the countries were consistent with their attitudes toward domestic political and economic reform. Given the new principles of Soviet foreign policy and the pronouncements that 'each socialist country has a right to its own road to socialism', with no pressure towards uniformity, countries indeed went 'their own ways'. This resulted in the formation within the Soviet bloc of several distinct groups of countries divided over the need to introduce reforms and pursuing different economic strategies. One group included countries which initiated substantial reforms entailing decentralisation and reform of financial mechanisms, like Poland and Hungary, or were reform-oriented, like the Soviet Union. This group supported the radical reform of the CMEA economic mechanisms based on a gradual transition to market regulation of CMEA processes (*Rynki Zagraniczne* 23 January 1987, 3-

4). The most reform-oriented countries like Hungary and Poland supported the radical reform of the CMEA economic mechanisms based on the introduction of currency convertibility and multilateral cooperation, which they saw as essential to solving the stagnation of intra-CMEA trade and the worsening position of individual economies. They criticised the Soviet Union for failing to introduce the necessary reforms of financial mechanisms and conditions for direct cooperation of enterprises. As an alternative measure they put forward proposals for subregional integration including countries which were ready to introduce the necessary economic conditions for the expansion of integration.

Another group consisted of countries such as the GDR and Romania, which refused to accept Soviet proposals, in principle accusing the Soviet Union of undermining the principles of socialism. They retained their centralised command systems of management and as a result considered any reform of the existing forms and methods of cooperation, including direct links, as contradicting their interests. This group was in favour of continuing reliance on inter-state agreements, fixed quota systems in intra-CMEA trade and the existing system of price formation (Stone 1996, 212). East Germany, however, supported the eventual convertibility of the transferable rouble, higher interest rates for CMEA credits and a reduction in the number of CMEA permanent commissions. Romania refused to adopt the program because its implementation would require domestic economic reforms that would conflict with its own concept of socialism. The third group comprised Bulgaria and Czechoslovakia which initiated moderate reform programs and while cautiously supporting moderate reform recommendations remained sceptical of CMEA reform going beyond their own domestic reforms. For example, Czechoslovakia advocated a socialist market that did not contain unemployment and bankruptcies (*Australian* 10 January 1988, 8).

Furthermore, at the level of particular interests there were significant differences related to the extent of non-quota trade, the transition to negotiated prices and the limited convertibility of the transferable rouble in settlements (Stone 1996, 217-9). In the new CMEA market conditions, characterised by very high oil prices and the Soviet Union's new demands of regarding particular exports, East European countries were increasingly concerned about maintaining the levels of their machinery exports and ensuring deliveries of raw materials. After 1988, during negotiations of plans for 1991-95, Soviet negotiators, referring to the disastrous state of their economy and a growing trade deficit with most of Eastern Europe, overturned successive agreements, imposing further reductions of East European export quotas for machinery. Therefore, even countries in favour of reforms and gradual liberalisation of trade, were interested in maintaining non-quota trade, at least with regard to 'strategic' deliveries, to secure stability of their economies (*Rynki Zagraniczne* 23 January 1987, 3-4). At the same time, however, countries like Czechoslovakia and Poland, guided by their commercial interests, proposed value-based quotas for certain kinds of machinery and consumer goods to improve their export structure (Stone 1996, 217).

As creating a 'common market' would require a high degree of coordination in reforming foreign trade and financial mechanisms, the existence of groups of countries pursuing increasingly diverse economic policies meant that no distinct progress could be made in the restructuring of CMEA mechanisms and institutional framework (Oniszczyk 1987). As a result the Session did not make any decisions regarding radical transformation of CMEA mechanisms. According to negotiators these disagreements resulted in an emasculated document amounting to a mere series of interesting suggestions (Stone 1996, 220-3). The part regarding the reform of trading and financial instruments was very general. For example, the text did not explain how value-based quotas were to increase. Its fundamental weakness was

that the document failed to commit CMEA members to specific reforms or a specific timetable which could improve the effectiveness of cooperation making the introduction of reforms dependent on the progress in individual countries (Kleer 1988, 13). The Hungarian and Polish representatives concluded that on the basis of this program no fundamental improvement in the effectiveness of mechanisms was possible as there were no means for the resolution of problems hindering cooperation.

Apart from diverse attitudes to economic reforms of individual CMEA members, the primary problem of this strategy was that there were no economic preconditions for its implementation. The most serious obstacle to the implementation of this strategy was the limited Soviet economic potential, in particular the lack of a proper export base in manufactures. Another factor was the incapacity of the Soviet economy to bring about the necessary changes in the CMEA mechanism. Soviet reformers understood that while in the short-term the limits of reform were set by the countries least advanced in their economic reforms, ultimately an essential condition for any change in CMEA was the reform of the Soviet economic system itself. For example, a move away from detailed coordination of mutual exports in the course of coordination of planning, was dependent on the decentralisation of planning in the Soviet Union. Similarly, the introduction of negotiated CMEA prices depended on the convertibility of the Soviet rouble which in turn could not occur without the development of the wholesale trade in the means of production. These changes in the Soviet domestic economy combined with Soviet economic potential and significance in mutual economic relations would force East Europeans to coordinate their economic policies with Soviet ones (Nekipelov 1987 in Stone 1996, 226).

Furthermore, the lack of progress in the implementation of the CPSTP and development of direct links between enterprises, which will be discussed in chapter 5, demonstrated that the CMEA was not viable in its present form. It could neither

overcome the technological backwardness of its members in relation to the West, nor help them solve their economic problems and transform the traditional model of cooperation.

The continuing economic slowdown, structural imbalances and shortages and the steadily increasing hard currency debt made it increasingly clear that the bloc countries were unable to speed up their economic growth without access to external sources of financing, which the Soviet Union was not in a position to provide.¹ The only option, especially for Poland or Hungary, burdened by huge foreign debts, seemed to be expansion of ties with the West. Their predicament and the lack of tangible effects of domestic economic reforms in the individual CMEA countries meant also that there were hardly any prospects that they could meet Soviet requirements for high-technology goods. There was indeed no possibility that East Europeans could, in the short-term, change their production methods and structures to provide the Soviet Union with the goods of the required technical quality. Furthermore, it was increasingly obvious that there were only limited possibilities of increasing Soviet deliveries to Eastern Europe of raw materials and fuels, because of the decline in oil production, rising costs of extraction, growing domestic demand and their significant position in Soviet hard currency exports.

As shown in Tables 1 and 2, the value of intra-CMEA trade throughout the 1980s diminished four to five times, depending on the individual country. At the same time, the rates of growth of mutual trade decreased one and a half to two times. While from 1981 to 1985 intra-CMEA trade grew by 3.2 per cent per annum, in 1987 this figure was a mere 1.5 per cent. Growth virtually came to halt in 1988, and in 1986-1989 period a 2.8 per cent drop was recorded (Zenin 1990, 42). Similar

¹In 1981-1985 the rate of growth was 3.3 per cent, in 1986 - 3.7 per cent, but in 1987 only 2.6 per cent. The evidence throughout the bloc indicated that the rate of return on investment was also declining (Kubiak 1989, 57-8). In 1987 the CMEA countries' hard currency debts increased for the third consecutive year.

trends were recorded in the share of intra-CMEA trade in total trade which was consistently on the decline since 1987 for all the CMEA members (see Tables 3 and 4).¹

These 'structural' barriers to the expansion of cooperation and the limited usefulness of CMEA in meeting the requirements of Soviet economic policy led to questioning of the expediency of over-reliance on the CMEA. These reservations were first articulated in articles published in Soviet authoritative journals in mid-1988. Their authors, who previously formulated major Soviet proposals for reform of CMEA, urged more active participation in world economic relations and cooperation with the West as a more effective means of accelerating economic growth. They blamed the traditional policy of isolation from the world economy for technological stagnation and low production efficiency, excessive energy consumption, and insufficient quality of production and services (Spandarian and Shmelev 1988, 10-2). This relative isolation from the West was also seen as a factor contributing to the failure of CMEA integration and the relative economic backwardness of its members (*Izvestiia* 12 August 1989). As one of the articles bluntly put it, 'Underrating contemporary world economic realities in the economic strategy of the the Soviet Union and the socialist commonwealth as a whole dooms socialism to economic backwardness in relation to capitalism' (Kunitsyn 1989, 55).

Spandarian and Shmelev (1988, 12) also pointed out that the existing mechanisms for cooperation within CMEA were not sufficient to achieve the objectives of the economic strategy and the acceleration of scientific-progress. In particular they criticised the assumption that the implementation of the CPSTP could be an effective means of catching up with Western technological standards. They

¹For a comparison, the share of trade with CMEA and the West respectively in 1987 (in per cent): Bulgaria 79, and 43; Czechoslovakia 74 and 19; GDR 63 and 32; Romania 48 and 26; Poland 43 and 44.

argued that while this assumption could be realistic in the long-term, the existing mechanisms were not adequate to ensure the appropriate quality of products.

The point of these arguments was not to prove that the success of perestroika depended solely on cooperation with the West but to reassess the high level of priority assigned to socialist economic integration in Soviet foreign policy and 'combine economic cooperation within CMEA countries with a rationalisation of the geographic structure of their international economic activity' (Kunitsyn 1989, 55).

These arguments found expression in actual political practice in the re-evaluation of the place of economic integration in CMEA within the overall foreign economic strategy which began in August 1988 (Csaba 1991, 194). Soviet objectives in relation to CMEA shifted from grand programs of cooperation towards putting 'ordinary' economic relations on a commercial basis. This found expression in the imposition of Soviet conditions on trade which were aimed at the restoration of the trade balance and a reduction of transactions which could have benefitted East Europeans. This new approach was demonstrated during the negotiations for 1991-95. Because of the deterioration of the Soviet economy, the fall in energy prices and a growing trade deficit with most of Eastern Europe the Soviet Union's priority was to reduce the level of machinery imports and increase East European imports of Soviet machinery. In late 1987 Soviet negotiators warned East Europeans that machinery exports would have to be reduced after 1990 and that they would have to accept more imports of Soviet machinery (Inotai 1988, 85). The Soviets did, in fact, implemented this warning by substantially reducing the East European surplus in machinery exports by firmly imposing reductions in key commodity imports across the board and doubling the quota of machinery that was imported from the Soviet Union. The Soviet Union also began to insist on linking of exports of raw materials to East European exports of selected types of machinery and consumer goods (Inotai 1988, 85; Stone 1996, 230-3). The Soviet Union also overturned its earlier

commitments and imposed a reduction of its exports of raw materials and fuels. It began to accept only those East European manufactured products which satisfied high technological standards.¹ There were also numerous instances when the Soviet Union refused to buy technologically improved Polish products because it considered them as relatively overpriced (*Rynki Zagraniczne* 11 July 1988, 1). An illustration of the success of the Soviet policy was a radical reversal in the Soviet balance of payments with Eastern Europe. In 1989, the Eastern Europe's trade balance turned from a surplus of 1.3 billion roubles in 1988 into a deficit of 3.6 billion roubles.

Despite its firmness in insisting on the new conditions of trade exchanges the Soviet Union still retained the CMEA pricing system which benefitted East European exporters of machinery and was prepared to grant concessions, apparently convinced by high-level interventions emphasising the costs for East European economies. For example, it agreed to moderate Soviet reductions in oil exports so as not to cause a serious crisis. Czechoslovakia was also allowed to withdraw its participation in the second stage of construction of Krivoi Rog iron-ore complex and the Soviet Union did not carry out its threats and did not decrease its iron ore exports (Stone 1996, 232).

This shift in Soviet economic strategy towards de-emphasising of political considerations in intra-bloc economic relations was confirmed in January 1989 at the meeting of the Executive Committee. The Soviet Union was not willing to increase deliveries of energy and materials, and wanted CMEA partners to run surpluses in their exchanges with the Soviet Union. It also put forward proposals urging a speedier application of actual world market prices in intra-CMEA relations, making the transferable rouble convertible, and intra-CMEA exchange rates more realistic.

¹ Around 75 per cent of Soviet machinery imports from Eastern Europe could not compete with Western products.

Another telling sign that the re-evaluation of the role of CMEA in Soviet strategy was under way manifested itself in the obvious stalemate in CMEA activities at the highest decision-making levels. For instance, plans to have a CMEA summit of party leaders devoted to economic matters, announced in December 1988 and first planned for March 1989 did not eventuate. Similarly, the CMEA Council Session which was to be held in June 1989 was first rescheduled for November and did not eventually convene until July 1990. Even when the Conference of communist party secretaries with responsibility for economic matters convened on 6 and 7 June 1989 in East Berlin, no genuine consensus was reached. While the official Communique endorsed the policy of moving towards a unified market, which had been approved at the 43rd and the 44th Council Sessions, it was evident from the deepening divisions within the CMEA over the introduction of market-oriented reforms that there was no immediate prospect of acting on this recommendation (Sobell 1989e).

Conclusion

In the examined period, CMEA strategy and functions were inexorably interlinked with the re-evaluation of Soviet political and economic priorities in Eastern Europe in view of its own internal economic situation and the relaxation in West-East tensions. In this context one defining feature was the weakening of Soviet pressure on CMEA integration. This was partly the result of the existing barriers to economic cooperation stemming from the lack of essential reforms and the technological weakness of the Soviet economy, and partly because of the diminishing political importance of the region in Soviet foreign policy concerns. Another distinct feature was the growing influence of the domestic dynamics in East European countries on the politics of integration which represented a disintegrative force by virtue of their independent and diverse attitudes to economic reforms and their preference, whenever possible, to develop economic relations with the West.

The pattern of political and economic relations between the Soviet Union and Eastern Europe and the objectives and the role of CMEA from late 1989 until the beginning of 1991.

The primary factor which influenced Soviet policy towards Eastern Europe and the CMEA in the period examined was the domestic political and economic situation of the country. It was characterised by an increasingly evident failure of economic reform and deepening economic crisis. In 1989 there was only 3 per cent increase in GNP, industrial output increased by 1.7 per cent and the first ever trade deficit was recorded.¹ A rapid increase in inflationary pressures and severe shortages of consumer goods generated social unrest.² Gorbachev himself admitted that in many areas matters 'not only are not improving, but actually growing worse' (*The Age* 16 September 1989). In 1990 the crisis deepened: GNP had fallen by 2 per cent, and national income produced by 4 per cent. Industrial output was down, foreign trade fell 6.9 per cent by value (*The Australian* 10 March 1990). Because of the fall in oil output, supplies were barely sufficient to satisfy domestic demand. Furthermore, the negative trend in the value of Soviet energy exports was reinforced by the fall in world market prices and the decline in Soviet oil production.

These symptoms of economic crisis led to a succession of programs aimed at a more radical reform strategy and a transition to a market economy. The first proposal, adopted on 20 December 1989, envisaged a gradual dismantling of the system of central planning and a slow transition towards a market economy over six years (*Izvestiia* 14 December 1989). By March 1990 this program was, however, already judged inadequate in the light of deteriorating performance, and the USSR Supreme Soviet adopted on 19 October 1990 more radical 'Basic Guidelines for

¹Prime Minister Ryzhkov announced that the Soviet hard currency debt in 1989 reached 34 billion roubles (50 billion US dollars at current exchange rates). It exceeded more than twice the annual export earnings (*Pravda* 10 June 1989, 3).

²Strikers in Siberia voiced demands reflecting strikes in August which led to Solidarity's rise (*The Weekend Australian* 28-29 October 1989; *Polityka* 21 November 1989).

Economic Stabilisation and Transition to a Market Economy' (*Izvestiia* 21 October 1990).

It was also increasingly obvious that if the economic situation did not improve, it would make impossible the realisation of Soviet initiatives such as the creation of a common European home and the Soviet Union's participation in international economic organisations. Thus, while in mid-1988 Western economic assistance seemed still to be a matter of choice, by 1989 it was a matter of urgent necessity. The urgent need for Western economic involvement and further measures in arms reduction to enable a shift of resources from the military to the civilian sector set the course of Soviet foreign policy towards the further improvement of relations with the West.

In the strategic area, this direction was marked by preparations for the signing in 1990 of the Treaty of Conventional Forces in Europe (CFE). Its terms required further drastic reductions of Soviet conventional and other types of armed forces in Europe on top of initial Soviet agreements to liquidate imbalances in its favour in the conventional armed forces in the European region, which were implemented during 1989-90. Negotiations also began on a treaty to limit the number of long-range nuclear weapons deployed by the two superpowers.

In the economic sphere the Soviet Union continued its policy of rebuilding commercial relations with the West, in particular with Europe. In early December 1989 Gorbachev emphasised that his long-term objective was to integrate the Soviet Union into the European and world economies and create a 'true international market' (*The Australian* 4 December 1989). His efforts to secure Western assistance resulted in a series of agreements on access to Western technology and know-how and a reduction of trade restrictions. For example, on 19 December 1989 the Soviet Union signed trade agreement with the EC reducing trade restrictions on a wide

range of raw materials and finished products. The EC also agreed to phase out quotas on the exports of Soviet manufactured goods to its member countries over a five- year period. The United States, for its part, promised that the Soviet Union would be granted the same trade status as enjoyed by other countries and withdrew objections to the Soviet Union's having observer status at the GATT.¹

In view of the deterioration of the Soviet economic situation these developments in the relations between the Soviet Union and the West raised fundamental questions as to the nature of desirable political and economic relationships with Eastern European countries.

First of all, progress in arms reduction agreements and prospects of the withdrawal of Soviet troops from the region, which was to be completed by mid-1991, and consequent transformation of the entire political-security balance in Europe meant that Eastern Europe by 1991 was to lose its former strategic significance. As Soviet security interests could be now protected without its military presence in Eastern Europe, the importance of the region in Soviet foreign policy concerns was also bound to decline. Moreover, Soviet economic priorities in the context of growing debt and limited export potential and increasing access to Western credit and technology were shifting towards ensuring the exchange of those exports which were possible for high quality goods from the West, not substandard East European products.

The diminishing strategic and economic significance of East European states brought into sharp focus questions about the costs to the Soviet Union of the maintaining the existing model of economic cooperation with Eastern Europe. There was certainly no longer so compelling a necessity to control its allies or to pay a significant economic price for their loyalty.

¹The Soviet Union assumed observer status at GATT in 1990 with a view to ultimate full membership.

While these strategic, political and economic ramifications of Soviet relations with the West must have affected Soviet perceptions of Eastern Europe, they did not determine the ultimate Soviet objectives in the region. The factor which seemed to decide the outcome of Soviet calculations were the political dynamics in the region.

In summer 1989, the Soviet Union continued its policy, inaugurated in 1987, of non-interference in East European affairs and granting them autonomy in internal affairs. It not only acquiesced in but even actively encouraged the process of political and economic reform in East European countries. There is, however, no reason to believe that at that stage Gorbachev expected or indeed intended that his policy would lead to a reduction, let alone a collapse of Soviet influence in Eastern Europe.

His calculations were proven wrong, however, when the political transformations in Poland and Hungary led to the loss of monopoly of power by local communist parties and a transition towards multi-party parliamentary democracies with mixed property and market-based economies.¹ In Poland, the Solidarity-led government, the first government in Eastern Europe in four decades that had not been dominated by communists, was formed in September 1990. One of its first policy pronouncements was an economic program envisaging the introduction of market reforms and privatisation of the economy, and an increase in Western involvement in the Polish economy. Hungary followed Poland's lead by the establishment on 19 October 1989 of a coalition government. The acting head of state proclaimed that Hungary was no longer a dictatorship of the proletariat but an independent republic dedicated to the values of 'bourgeois democracy and democratic socialism' (*The Australian* 20 October 1989, 10).

¹According to Mieczyslaw Rakowski, the Polish communist party's official spokesman, Gorbachev had expressed approval of the Solidarity-led government saying that recent Polish events would serve the Polish nation and strengthen socialism in the country. Rakowski stated that: 'Gorbachev supported and approved the policies undertaken by our new Government' referring to the new Solidarity-led government. Rakowski added that Gorbachev was actively encouraging the changes in Eastern Europe and stressed that the shape and organisation of any party depends only on that party (*Sydney Morning Herald* 13 October 1989, 12).

These developments soon forced the local communist parties to accept the necessity of abandoning their ideological commitments to Marxist-Leninist ideology in response to the needs of the changing political situation. The result was their transformation into parties with a social-democratic orientation committed to a multi-party system, free elections and market-based economies.¹

The disintegration of communist rule in the remaining Eastern Europe countries by December of 1989 and the formation of governments with an ideological orientation which could not be classified as socialist removed any pretence of common interests. The Soviet Union was not willing to intervene to maintain the existing Eastern European dependency, and deprived of the ideological basis to maintain the claim, was forced to admit the disintegration of Soviet control and to redefine its political relationship with Eastern European countries.

The announcement of renunciation of Soviet domination of Eastern Europe and effectively a declaration of the end of the Soviet bloc came with the long-awaited official renunciation of the Brezhnev Doctrine in December 1989 at a Warsaw Pact meeting. In a separate statement condemning the invasion the Soviet Union officially denounced the 1968 invasion of Czechoslovakia, and thus formally repudiated the Brezhnev doctrine of 'limited sovereignty' which had justified the intervention (*The Australian* 6 December 1989).²

This renunciation of the Brezhnev Doctrine had actually been foreshadowed a few days earlier at the Malta summit with President Bush. At the meeting Gorbachev

¹The Hungarian Socialist Workers' Party dissolved itself and transformed itself into a reformed Hungarian Socialist Party (*The Australian* 1 October 1989, 9). The 16th Plenum of Central Committee of PZPR abandoned Marxist-Leninist dogmas of the dictatorship of the proletariat and democratic centralism and called for the establishment of a new party (*Polityka* 12 November 1989,2).

²In a joint Communique the Soviet Union, East Germany, Poland, Hungary and Bulgaria condemned the Soviet-led 1968 military invasion, called it illegal, and pledged a strict policy of non-interference in each other's internal affairs. A separate Soviet government statement said that the invasion heightened East-West tension, was 'groundless, and the decision concerning it was a mistake in the light of all facts known today'.

outlined a revised concept for the common European house. The earlier version which, as mentioned earlier, envisaged a partnership between two political-military-economic blocs was replaced by a commonwealth of sovereign democratic States with accessible borders open to the exchange of products, technologies, ideas and wide-ranging contacts between people (*The Australian* 4 December 1989).

A new Soviet strategy towards Eastern Europe.

Following the renunciation of the Brezhnev doctrine Soviet objectives in the region shifted towards so called 'Finlandisation' of political relations with the former countries of the Soviet bloc, that is securing the pattern where the former subordinates enjoy virtually total autonomy in deciding their domestic institutional structures and processes of economic and political life, but their foreign policies are constrained to take account of vital Soviet interests (Miller 1991, 131). By the end of 1990 closer ties with Western Europe combined with new international security arrangements marked the beginning of withdrawal of the active involvement of the Soviet Union from the region, and a return to inter-state relations. The Soviet Union began to rely on indirect political means, in particular diplomacy with the West, to secure its interests in the region.

At the time of the disintegration of the Soviet bloc the Soviet Union's domestic situation was characterised by a deteriorating economy, a growing balance of payments deficit, which sharply worsened in the first half of 1990, and pressures for autonomy, if not outright independence in individual republics comprising the Soviet Union.¹ In the light of the deteriorating economic performance in the Soviet Union it was generally accepted that only cooperation with the West could provide the capital and technology required to build a market economy. Stanislav Shatalin, a member of the Presidential Council, admitted that all economic reform to date had

¹The Soviet Union's debt crisis was exposed by defaulting on payments for imports from Western countries (*The Australian* 8 May 1990, 1-2).

failed, 'If anything the situation has deteriorated' and added that 'without the cooperation with the West we cannot build a market economy' (*The Australian* 19-20 May 1990, 6).

In international affairs the reunification of Germany within NATO, formally recognized on 3 October 1990, marked the completion of a new European settlement. In its wake the Soviet Union signed a 20-year non-aggression pact with Germany. Germany also made a major financial commitment to the Soviet Union (*The Sydney Morning Herald* 10 November 1990, 5).¹ Gorbachev also discussed with European Community leaders the issue of financial help and by the end of November all the major West European states had made interim offers of financial assistance.

Despite renunciation of its right to control East European states the Soviet Union still insisted on maintaining the political and economic institutions of the former socialist commonwealth.² This was a way of ensuring that former allies pursued pro-Soviet policies. For example, the chief purpose of maintaining the Warsaw Pact, was to use it as a diplomatic tool in the construction of a new Europe with the aim of securing the best possible political and financial conditions with particular regard to the reunification of Germany, and the relationship with NATO. The Warsaw Pact summit in December 1989 was used to put pressure on East European leaders to pursue policies consistent with Soviet security interests, specifically to make the withdrawal of Soviet troops from their soil conditional on the progress in European

¹Germany committed itself to aid the withdrawal of troops from the former East Germany, grant a three-billion mark interest-free credit, give a guarantee for a five-billion mark credit to Moscow by German commercial banks, credit guarantees for trade with the Soviet Union.

²In November 1989, following the opening of the Berlin Wall, Gorbachev, referring to the WP and CMEA, declared, 'Now is not the time to break up established international political and economic institutions, they should be transformed gradually. Let them be transformed taking into account internal processes.' (*Financial Review* 16 November 1989).

disarmament negotiations (*The Sydney Morning Herald* 6 December 1989).¹ The Soviet Union also used the existing forms of economic dependence on Soviet raw materials and market to ensure that the former bloc countries pursued pro-Soviet policies. For instance, in October 1990 the Soviet Union concluded a special deal on extra oil deliveries with Czechoslovakia in return for consideration of Soviet interests in negotiations on the future of the Warsaw Pact and the new order in Europe (*Financial Times* 31 October 1990).

The implications of the new patterns of Soviet-East European relationship for the CMEA.

The activities of the CMEA towards the end of 1989 were characterised by a continuing stalemate, with no meeting devoted to discussion of policies since May. Finally, some breakthrough seemed to have been achieved with the meeting of the Executive Committee at the end of October 1989. The meeting took place when the Polish and Hungarian governments had already rejected communist rule and the centrally planned system and had announced the transition to a market economy. The meeting decided to elaborate a new concept of CMEA structures and mechanisms of cooperation until 1995 (*Ekon. sotr.* 1989:11, 13).² The main objective of this new strategy was to facilitate the CMEA's return to the international market and to normal trade arrangements. Soviet officials were not opposed to radical reform in their alliance, in fact they promoted change. Their position was consistent with Soviet acceptance that radical market-oriented transformations were a prerequisite for the reintegration of Soviet bloc economies into the world economic and trading systems. This direction envisaged for the CMEA by the Soviet Union was consistent with Shevardnadze's call on 19 December 1989 for a commission to discuss the

¹The 16 May 1990 Declaration at the end of top-level meeting announcing the end of the WP in its present form and agreement to transform it into an essentially political body: a pact of sovereign and emancipated states based on democratic principles (*The Weekend Australian* 9-10 June 1990).

²Communique on the 132nd meeting of the Executive Committee of the Council for Mutual Economic Assistance held on 26-28 October 1989.

formation of an integral economic complex in Europe which would include all existing major trading blocs: the EC, CMEA and EFTA.

At that time East European countries continued to act on the assumption of the maintenance of intra-CMEA trade arrangements and the rules of cooperation, notwithstanding political changes. An illustration of this approach was the expectation of the Polish government in its economic program presented in November 1989 of the continuation of the existing trade and payments arrangements until at least 1991, when the five-year agreements adopted within the framework of the CMEA were to expire. Only then did it envisage the introduction of a new system in which the quotas would cover only products of strategic importance, and convertible-currency settlements based on current world market price would perform a significant role in economic relations with CMEA countries.

The Soviet Union, however, with the renunciation of military and political subordination was unwilling to enter any trade agreements which were not based on economic considerations. In November 1989 the Soviet Union refused Poland's Prime Minister Mazowiecki's request to increase deliveries of Soviet oil and gas, to reduce Poland's contribution to the upkeep of Soviet troops on their soil, and to postpone repayment of the country's large debt to Moscow (*The Sydney Morning Herald* 27 November 1989, 12). The Soviet Union insisted also on the repayment of East European countries' debt to Moscow.

The most unequivocal sign of the radical change in the Soviet attitude towards its former allies was reflected in the resolution of the 2nd Congress of People's Deputies held in December 1989 to change the basis of exchanges among CMEA countries towards world market prices and convertible currencies (*Izvestiia* 16 December 1989). The resolution expressed the long-held view that trade relations under CMEA were characterised by a one-side crediting of East European countries

by the Soviet Union, and hence that 'fraternal assistance' represented a significant burden for the Soviet economy. This led to a belief that by a quick switch-over to new conditions in trade relations with the CMEA countries the Soviet Union could gain substantial advantages (Durka 1992, 12).

Despite this new Soviet stance, and market transformations undertaken by some of the member countries, at the beginning of the last year of CMEA's existence there were no indications of the sudden demise of the organisation. On the eve of the last 45th Session, held on 9 and 10 January 1990, none of the members supported the outright abolition of the grouping. On one occasion, shortly before the Session, Czechoslovakia's new Finance Minister suggested that CMEA be scrapped completely, but he quickly backed away from the comment and suggested only sweeping changes to the organisation.

Consequently, when the Session convened, all member countries, including the Soviet Union, supported the continuation of the CMEA's economic cooperation. At the same time, however, they agreed on the need to push ahead with the radical changes in the structure and functions of the CMEA and the reform of its financial and economic mechanisms towards a market trading system. The exception was Cuba which expressed the most serious reservations about a wholesale change, essentially wanting to preserve the current arrangements.

However, even among those countries which were in favour of market reforms, there were differences with regard to the extent and time-frame for the projected measures. These differences of opinion were related to the degree of advancement of their domestic market reforms, the potential economic outcomes of the transition and their perceived political interests.

Accordingly, the hard-line regimes in Bulgaria and Rumania were amongst those who were opposed to a rapid transition to a new system of settlements (Zycie

Warszawy 7 June 1990). The Soviet Union's proposal entailed a move to trading on a hard-currency basis at world market prices starting with the year 1991. This statement was qualified by the Soviet Prime Minister's announcement that trade in convertible currencies within CMEA would be completed in stages and in different ways, depending on the nations concerned (*Vestnik* March 1990, 27).

The most reformist governments of Czechoslovakia, Hungary and Poland were, like the Soviet Union, in favour of a transition to settlements in convertible currencies and the application of world market prices in intra-CMEA relations. In addition, Hungary and Poland considered the replacement of the present system of coordination of plans with bilateral trade agreements which would diminish the role of government agencies. Czechoslovakia wanted an ad hoc commission to present a blueprint for the reorganisation of CMEA activities by late February 1990.

However even these most reformist East European countries were not interested in the rapid dissolution of existing CMEA trade and industrial cooperation links. On the one hand, new East European governments at that time expected that structural changes initiated by market reforms would bring substantial gains through more efficient allocation of resources. The foreign trade sector was one of those areas where structural changes were supposed to manifest themselves most conspicuously through a rapid elimination of inefficient trade flows and an expansion of profitable transactions. On the other hand, however, they were concerned with the potential costs to their economies of the transition to new trade arrangements which would entail paying in convertible currencies for the imports of Soviet energy, a decrease in prices for their substandard products, and indeed the lack of any guarantee that they could sell them at all.¹ There was also an awareness of the legacy of the CMEA in terms of dependence on Soviet energy and raw

¹ The costs of immediate transition were exemplified by the extent of dependence of East European industries on the Soviet market. For instance in case of 150 Polish enterprises, exports to the Soviet market constituted 25-90 per cent of their total production.

materials deliveries and the existence of whole industrial sectors producing primarily for the Soviet market which could not be changed immediately without heavy social domestic costs. These factors, related primarily to the trade with the Soviet Union, had to be taken into account in the transitional period, even if the maintenance of outdated industries was doubtful in purely economic terms.

As a consequence, the line taken by East European members was that the transition to a market trading system should be gradual. The Polish Prime Minister proposed that present commitments regarding the quotas of goods be guaranteed until 1995. He also suggested bilateral negotiations with regard to trade and payments arrangements depending on the degree of advancement of economic reforms. A Czechoslovak representative called for a transition period of two to four years saying that his country would be ready to adopt the Soviet-proposed principles of settling accounts by the end of the next five-year period, rather than in 1991.

East European members were also interested in the alleviation of the consequences of the introduction of the new settlements system by means of a proportionate distribution of its burden. As a result, Czechoslovakia and Poland insisted on the inclusion of a clause allowing for compensation for the cost of making the switch. The Polish Prime Minister Mazowiecki justified this claim by arguing that the Soviet Union must pay for 40 years of economic stagnation of the East European countries (Bartoszewicz 1991, 17).

These differences among individual countries and their fears of the economic consequences of the new conditions in trade relations were reflected in the resolutions of the 45th Session. On the one hand, CMEA members agreed that the organisation in its present form was unviable and agreed to the establishment of a special commission which would prepare proposals for a radical overhaul (*Ekonsotr.* 1990:8, 9-13). They also reached an interim general agreement about a radical

transformation of existing trading arrangements and mechanisms of cooperation and a transition to settlements in world prices, and a change to a convertible currency basis and real exchange rates in trade relations (*Ekon. sotr.* 1990:11, 22). There was however no deadline set for the ultimate transition to market regulation of cooperation. CMEA countries emphasised that the transition should be gradual and that countries should negotiate the terms of transition on a bilateral basis, making sure that no side enjoyed undue advantage (Poprzcenko 1990, 17). Furthermore, they agreed on various interim mechanisms to protect their national economies and mutual trade against the impact of the new, market-oriented regulations, such as maintenance in the transition period of inter-state agreements on deliveries of goods of strategic importance for the national economies.

During the final press conference, the Soviet Prime Minister, seemingly acknowledging concerns and grievances of its trading partners, expressed an opinion that this process of gradual transition should take three years. He also acknowledged the need to consider each other's interests, in particular, a specific approach was necessary for Cuba, Mongolia and Vietnam. There was, however, in the context of the new Soviet approach to economic relations, an unsettling ring in his remark that every country had a right to withdraw from the organisation (*Vestnik* March 1990, 25-7).

For a few months following the Session it seemed that its arrangements could be implemented, even though the decision in March 1990 to abolish multilateral cooperation and co-ordination of plans, and reduce the role of the Secretariat meant that the traditional model of cooperation was no longer operative. However, the commission on CMEA reform set up by 45th Session continued its work on the Program of action which was discussed on 27-28 June 1990. The Commission set out changes in CMEA objectives, organisational structures, mechanisms of cooperation, and the principles of its functioning. According to the Program, the

CMEA was to assume a status similar to that of the EEC. It would not have the right to issue recommendations to its members regarding economic policies. Its structure would comprise only the Committee of permanent representatives of governments of member countries and the Secretariat. The two fundamental objectives of CMEA operation were to assist member countries in the development of mutual ties based on market principles and the integration of their economies into world economic relations, in particular into European economic structures. The operation of the CMEA in its existing form was to be completed by the end of 1990. In the future CMEA members were to have the right to join other international economic organisations and conclude agreements on economic cooperation with other countries from outside the CMEA.

These negotiations were, however, unilaterally stopped by the Soviet Union in July 1990 when President Gorbachev issued a decree 'On introducing changes into the Soviet Union's foreign economic relations' which committed the Soviet government to bringing about a transition in its economic relations with other CMEA countries as from 1 January 1991 (*Izvestiia* 25 July 1990). The decree postulated a switch-over of Soviet trade with CMEA partners from the settlements in transferable roubles to trade in convertible currencies and at current world market prices. These changes in the principles of economic cooperation spelled the actual abolition of the traditional CMEA trading system.

The change in the Soviet position regarding the principles of economic relations with its CMEA trading partners was a result of its worsening economic and financial situation and worsening budget deficit coupled with a drop in the production of oil (Poprzeczko 1990, 17-8). In terms of Soviet political interests the unification of Germany meant that the Soviet Union did not need to use the economic dependency of its former satellites on Soviet raw materials and markets to ensure that former bloc

countries pursued pro-Soviet policies in negotiations regarding the new order in Europe based on the reunification of Germany.

The Soviet Union expected that the transition would provide considerable sums of foreign currency. It estimated that by a switch to hard currency it would gain from each partner between 800 mln -1.5 billion US dollars a year and that thanks to the transition the deficit in Soviet trade with the CMEA would become a surplus of about 1 billion US dollars (Bartoszewicz 1991, 17).

The other CMEA members had to comply with the new rules as their attempts to negotiate a transitory period were met with the Soviet Union's refusal. Forced by the Soviet decree, the CMEA countries concluded in the second half of 1990 bilateral agreements, establishing a new institutional framework of trade relations. The transferable rouble was replaced by convertible currencies as the means of payment in all foreign trade transactions, the CMEA prices were replaced by world market prices, and the detailed inter-governmental trade agreements by specific contracts concluded between individual enterprises, supplemented by the general trade agreement.

The terms of new Soviet trade relations with former satellites can be illustrated by an agreement signed with Poland in autumn 1990. The Polish side proposed that the deliveries of strategic goods would be covered by inter-state agreements and suggested a gradual transition to non-quota trade until 1996. The Poles also expected that the Soviet Union would agree to an increase of Polish exports of machinery and equipment in response to the deterioration of terms of trade as a result of the transition to hard currency settlements. The Soviet Union, however, refused to guarantee the level of deliveries of strategic goods, except for those relating to Polish participation in joint investment projects. It renounced all its former commitments.

Furthermore, the Soviets not only refused to increase imports of Polish manufactures but decided to decrease their levels (Bozyk 1990, 4)

Formal dissolution of the CMEA, which took place in Budapest in June 1991 was only a symbolic performance of the last rites of a process of disintegration which had been completed much earlier.

Conclusion

In the period examined in this chapter the CMEA's role and its ultimate demise were a function of processes and forces set in motion by Gorbachev's political and economic reforms. The primary factor was the re-evaluation of Soviet political priorities in Eastern Europe as a result of Soviet political and economic calculations of the expediency of maintaining an empire in the light of internal economic pressures and changing strategic circumstances.

The role assigned to CMEA was directly related to the strategic and political importance of Eastern Europe in Soviet foreign policy. As long as the Soviet Union saw the domination of Eastern Europe as an important means of securing its interests, Gorbachev tried to find ways by which Eastern Europe could contribute to the Soviet Union's objectives. However, when the Soviet Union renounced its political and military subordination of Eastern Europe there were no possible advantages in maintaining the CMEA, especially since the Soviet Union could obtain technology directly from the West.

The maximum limits of permissible reforms of CMEA, proposed during Gorbachev's rule were still determined by the principles and the logic of Soviet reform. However, at the other end of the spectrum the possibility of achieving reforms was determined by another factor, namely differences in the extent of reforms in individual East European members. Those countries which were retaining

their centralised command systems of management considered CMEA reform as conflicting with their interests and tried to obstruct its implementation. The lack of unity on the extent and the desirability of reforms was due to the lack of political willingness of some governments to introduce reforms and the Soviet Union's decreasing ability to influence the internal affairs of East European countries.

Apart from diverse attitudes to economic reforms among individual CMEA members, the primary problem of this strategy was that there were no economic preconditions for its implementation. The primary factor was the incapacity of the Soviet economy to bring about the necessary changes in the CMEA mechanism. Soviet reformers understood that while in the short-term the limits of reform were set by the countries least advanced in their economic reforms, ultimately an essential condition for any change in CMEA was the radical reform of the Soviet economic system which would, in turn, force smaller East European countries to adjust their systems of management. Another serious obstacle to the successful implementation of CMEA strategies, whether the CPSTP, direct cooperation of enterprises or 'common market' was the limited Soviet economic potential, in particular the lack of a proper export base in manufactures.

Ultimately, however, the demise of CMEA was caused not by economic factors but by the loss of Eastern Europe's strategic significance for the Soviet Union, which was always the main reason for its existence. Soon after the renunciation of military and political subordination of Eastern Europe, the Soviet Union also renounced any obligations to the region which were not based on economic considerations and lost interest in maintaining CMEA.

CHAPTER FIVE

THE IMPLEMENTATION OF GORBACHEV'S REFORMS OF CMEA.

In the previous chapter I discussed the main political and economic factors which determined the objectives and the strategy of pressure for CMEA integration from 1985 until 1990 and the role of CMEA in Soviet policy under Gorbachev. The aim of this chapter is to examine the implementation of these CMEA strategies and evaluate the reasons for the failure of attempts to introduce new forms of CMEA cooperation. To that purpose, I will examine the actual mechanisms for cooperation the implementation of CPSTP and the realisation of the program of direct cooperation of enterprises and the setting up of joint enterprises. The discussion demonstrates that the failure of these programs was caused by the problems with introduction of the organisational and economic conditions necessary for the postulated operation of enterprises. Another major problem related to conflict between the commercial interests of East European countries and Soviet requirements. There was no possibility to solve these problems within the existing framework of institutional arrangements of Soviet bloc economies and in view of the Soviet Union's relative technological backwardness.

The implementation of CPSTP.

As discussed in Chapter 4, the CPSTP set out five priority areas for cooperation, which were then subdivided into ninety-three project areas and then into the detailed cooperation programs. The responsibility for the implementation of projects belonged to the Leading Organisations, Soviet institutes, which were to coordinate negotiations between participants and determine the obligations of each party and ensure that all the areas were interconnected. The successful

implementation of the projects was dependent on each participating country agreeing to the priority of projects and allocating the required resources in the national plan.

In practice however the actual implementation of the CPSTP did not conform to this ideal. First of all, even at the early stage of the formulation of detailed programs of cooperation, during the division by leading organizations of the problem areas into detailed cooperation projects, this design was lost. Many projects were assigned to several problem areas, or were formulated vaguely and as a result individual projects were not properly connected. Furthermore, the priority of East European countries was to minimise their contribution. As a consequence, in order to minimise investment costs, they included in programs of cooperation projects which had been already included in their national science and technology programs predating the CPSTP (*Rzeczpospolita* 4 November 1986, 1-2; Stone 1996, 190-9). Furthermore, they attempted to set technical parameters and standards for new products under the CPSTP at a low level. The formulation of the detailed cooperation programs in this way meant that it was extremely unlikely that the projects would meet international standards. Another obstacle in the formulation of programs was posed by a decided preference of East European participants for bilateral cooperation over multilateral cooperation. This led to a series of bilateral contracts between the more technologically advanced countries such as GDR, Poland and Czechoslovakia which preferred to cooperate directly with the Soviet Union (Monkiewicz 1988, 141; Stone 1996, 190).

The immediate reason for the failure to fulfil the requirements of the CPSTP at the stage of formulation of detailed programs was thus the reluctance of East European participants to keep their obligations and commit themselves to the introduction of new products and the elaboration of new technologies and their unwillingness to cooperate on a multilateral basis. However in order to understand

the actual reasons of their objections to their involvement it is necessary to analyse the motives of their unwillingness to cooperate.

The first explanation of the behaviour of East European countries was their desire to protect their own political and commercial interest. Their behaviour was perfectly rational from the point of view of maximising their own economic survival. East European countries did not think that it made sense for them economically to engage in the implementation of the program given the existing technological levels within the Soviet bloc where only 15 percent of Soviet and 25 per cent of East European machinery production met international standards. Thus given the low technological level of Soviet bloc products the goal of attaining international standards on the basis of the existing research base was highly unlikely. A much more effective means of modernizing their production and raising the competitiveness was to import Western technologies. This lack of incentives to invest scarce resources in the implementation of a doomed project resulted in the inclusion by East European countries in the program projects from their pre-existing plans and deliberate effort to negotiate low technical parameters and standards.

Furthermore, East European countries perceived the outcomes of the CPSTP from the point of view of their commercial interests as exporters of machinery whose main objective was to ensure the greatest possible share of machinery exports to the Soviet Union. By 1984, when work began on the formulation of cooperation programs, the Soviet Union had begun to demand higher standards of East European manufactured goods. This meant that some East European exports that had been traditionally exchanged for Soviet raw materials and energy were no longer acceptable. The inclusion of a particular product or type of machinery in the CPSTP allowed, however, to claim that they had reached acceptable technical level or were 'high technology' exports which attracted higher prices. This would improve the prospects for including this product in bilateral trade agreements (Stone 1996,

188).¹ This practice led to the attempt to include as many products as possible in each program in programs and to an excessive expansion of programs, which undermined their original purpose of focusing on priority areas.

As exporters of machinery, East Europeans were also afraid that investing in the CPSTP would ultimately lead to the loss of Soviet markets if the Soviet Union appropriated the technology provided within projects. The increase of high-technology products in Soviet exports was indeed the stated Soviet objective. Thus East European countries could only lose if the Soviet technological standards were improved. This was another reason why they attempted to downgrade the norms and standards that were set for new products under the CPSTP.

East European states also did not want to participate in the program because they believed that it was primarily in the Soviet interest. This conclusion was based on the design of the program which sought to ensure the pooling of resources under Soviet supervision. It was reinforced by, mentioned in Chapter 4, the Soviet policy of withholding from the CPSTP its most advanced technology apparently because it had military applications. Furthermore, during the stage of formulation of detailed projects decisions were made without proper analysis of feasibility. As a consequence East European countries insisted on the preparation of feasibility studies to determine whether projects are technologically and economically justified before they began to commit their resources (Monkiewicz 1988, 140).

The reason for the East Europeans' preference for bilateral contracts was the inadequate protection of copyrights in CMEA. This meant that in those projects where East Europeans participated in research, the Soviet Union could acquire their scientific results (Bielen 1996, 31). Therefore, in order to protect their rights East European participants resisted the right of the Leading Organisations to distribute

¹An interview with the former Polish Minister for Science and Technology, Konrad Tott.

projects to the executors and preferred to organise cooperation on the basis of contracts for complete projects or at least tried to dominate those projects in which they participated. As the exporter of a final product rather than scientific research they could also exercise some control over their trade with the Soviet Union (Stone 1996, 182-3).

During the implementation stage, East European countries further failed to fulfil their obligations. The East Europeans uniformly resisted the creation of joint funds for cooperation measures (Monkiewicz 1988, 141). The principle which prevailed during negotiations was that contributions were to be dependent on the share of utilisations. However, in practice when it came to the signing of contracts, East Europeans refused to create such funds, as they would serve Soviet interests and would not bring substantial benefits to the contributing countries (Stone 1996, 184). As a result, provision of funding was left at the discretion of each participant. According to the Program each country had to ensure the priority of projects, allocate resources and include the necessary tasks in the plan. Each country did this in formal terms. However implementation was usually highly selective, and financing by central organisations was not consistent, or provided for only part of the projects. For example, the Polish policy was to finance only those projects which were considered legitimate from the point of view of contributing to the needs of the Polish economy and to ignore those which were perceived as meeting Soviet needs and objectives. As a rule these projects which were funded usually had already been included in national programs before the CPSTP was formulated or were undertaken on the orders of economic organisations (Stone 1996, 192, 194). This policy of funding projects which were already in the national plan served as a pretence for implementing of the program (Stone 1996, 198).

In order to avoid financing projects in which it was not interested, Poland's Committee for Science and Technical Progress of the Council of Ministers, which

managed Polish participation in the CPSTP interpreted the 1986 financial directives of the Council of Ministers in a way which gave responsibility for financing to individual enterprises. This provided a justification for not financing the projects. This policy was possible because of the substantial economic independence of Polish economic organisations in the 1980s, which were permitted to dispose of their funds.¹

The implementation of the Program was also obstructed by the absence of changes in the institutional system which would have created incentives for changes in the structure of production towards a higher technical level of manufactured products and improved quality (Monkiewicz 1988, 140).

The reasons for the East European countries lack of interest in carrying out the CPSTP were thus similar to those which hindered the implementation of the CP and specialisation agreements. East European participants, more interested in Western technology and experiencing shortages of investment funds, were unwilling to get involved in projects under Soviet auspices and adopted various tactics in order not to carry out projects which were evidently subordinated to Soviet needs. The difficulties in the implementation of the Program related also to the institutional arrangements in domestic economies which did not encourage innovation, such as the lack of financial incentives to develop and apply new technologies and bureaucratic barriers to technological progress inherent in their economic management. Institutional barriers similarly obstructed the Soviet Union's implementation of the Program. The Soviets did not insist on the achievement of high technological standards and allowed the East Europeans to downgrade the norms and standards that were set for new products under the CPSTP. As Soviet officials observed, this coincided with the interest of Soviet leading organisations in

¹Tynel (1987, 115-118) discusses shortcomings in legal regulation of scientific-technological cooperation of CMEA members, which left the implementation of projects to the good-will of participants.

keeping these technical standards low in order to make it easier to fulfil their planned targets (Stone 1996, 189).

Furthermore, during the implementation of the program, despite the failure of East European participants to fulfil their commitments, the Soviet Union did not seriously attempt to exert pressure on its partners to cooperate. In the absence of financial incentives to develop and apply new technologies the implementation of the Program was dependent on policing of agreements. However, as discussed in chapter 4, East European participants successfully resisted the creation of bodies with supranational powers and the consequent lack of authority of the Leading Organisations meant that the Soviet Union could not enforce these agreements.

This lack of proper arrangements to ensure the implementation of obligations was noted as the main reason for the lack of progress in the implementation of the Program during a round-table discussion conducted by *Izvestiia* (10 October 1987, 8). The general opinion was that the leading organisations that were set up and assigned specific areas of scientific and technical progress generally did not have any sources of financing, any authority, or any influence over the enterprises that were under their ministries' jurisdiction. For these enterprises, work connected with CMEA activities was of a secondary, non-obligatory nature. The exception was the area of the development of new materials that was moving forward more or less successfully. It had, however, its own scientific-production base and, what was also very important, tremendous prestige.

The implementation of CPSTP did not contribute to the modernisation of the production base and did not raise the technical level of manufactures within the CMEA. Nor did it lead to the creation of an internationally competitive industrial sector in CMEA countries and thus to the transformation of intra-CMEA trade towards greater exchange of high technology goods. Consequently, the CPSTP did

not contribute to an improvement of intra-CMEA trade in terms of an increase in the quality of goods and the competitiveness of exports. In 1989, out of 1300 new technologies and new materials which were to be developed under the program, research and experiments were completed only in the case of 300. However, even these were not applied in practice (Valkowski 1989, 51). An illustration of the failure of CPSTP was the fact that at a time of decrease in intra-CMEA trade exchanges there was an increase by 1.5 billion roubles of imports from developed capitalist countries of high-technology products.

The implementation of direct cooperation of enterprises and setting up of joint enterprises.

As discussed in chapter 4, these new forms of economic cooperation were seen as a main means of implementing the new CMEA strategies and the transformation of its mechanism towards a greater reliance of financial instruments. Thus their success or failure was bound to be of fundamental importance for the results of CMEA cooperation. This discussion focuses on the development of cooperation at the enterprise level between Poland and the Soviet Union with only marginal reference to its implementation in other countries. The limitation of analysis to these two countries is justified for two reasons. Firstly, because Poland seemed to respond to Soviet initiatives with the greatest interest. Secondly, the analysis of the progress of these forms of cooperation in Poland should provide a good indication of possible barriers to their development, in view of the further advancement of economic reform in Poland in comparison with other bloc countries, and thus relatively favourable conditions for the development of direct cooperation. Finally, despite many differences in the functioning of economic systems of management in individual socialist countries, the experience of these two countries allows to identify certain common features enabling to formulate some general conclusions regarding the problems of these form of cooperation.

Within a few months of the signing of the initial agreements the results of direct cooperation of enterprises and joint enterprises indicated that neither the introduction of formal conditions nor political pressure created sufficient conditions for them to become the dominant form of cooperation. The early figures showed that the total value of exchanges within the framework of direct links between Polish and Soviet enterprises amounted in 1987 to 20 million roubles. This was an insignificant amount in comparison with the total value of Polish-Soviet exchanges, which was around 13-14 billion roubles annually (Kuczynski 1989, 84).

These results did not improve with time. In 1987-1988 production as a result of direct cooperation of enterprises of Soviet and other CMEA members represented 0.03 per cent of their total turnover (Kormnov 1990, 10). In 1988, direct links between Soviet and foreign firms accounted for no more than 1 per cent of foreign trade turnover (*Pravda* 22 January 1989, 5). Similar results were achieved in Poland, where direct links accounted for 1.5 per cent of total foreign exchanges (*Polityka* 15 April 1989, 20).

Furthermore, the official number of cooperating enterprises seemed to be more a propaganda exercise than a reflection of reality. In Poland in mid-1988 there were officially registered 589 production enterprises and research organisations cooperating directly with other economic organisations in CMEA countries, including 438 with the Soviet Union (*Rynki Zagraniczne* 11 July 1988, 1). However out of these 'selected' pairs of enterprises only several dozen signed agreements and many of those remained on paper because of the partners' lack of interests (*Rynki Zagraniczne* 15 July 1988, 1). According to a Polish trade representative in Moscow, 50 pairs turned out to be an 'accidental' choice (Baczynski 1988b, 17).

While there were no figures of 'genuine' links published, the same situation must have characterised developments in the Soviet Union. Officially there were two

thousand registered agreements on direct links and 460 joint enterprises with CMEA members (Rybakov 1989, 70). However the actual number of cooperating enterprises must have been much smaller judging by the insignificant results of cooperation and also by the number of partners in other CMEA countries.

The program of establishing joint Polish enterprises with CMEA partners was also implemented with great difficulties. By December 1987 five out of twelve Polish-Soviet projects had already been abandoned (Markusz 1987). Ultimately two joint enterprises in production were established: the 'Pollena-Miraculum' Chemical Plant in Cracow in April 1988 with a Polish contribution of 60 per cent and 40 per cent from the Soviet Union's; and 'Fimbes' with Ostrzeszow Mechanical Equipment Plant in June 1988 (Baczynski 1988b, 18). There were also four joint enterprises in construction and publishing: Polsib and Orbita, in Poland and the Sovbud project and Somico in the Soviet Union. Poland also set up one joint enterprise with Hungary and one with Bulgaria (*Rynki Zagraniczne* 15 July 1988, 1).

Furthermore, the actual scope of cooperation of enterprises differed from the original plans. As mentioned earlier, the main objective of this form of cooperation was to establish permanent ties between CMEA member economies on the basis of specialisation and cooperation in production. However, in practice direct cooperation entailed primarily the exchange of experiences and specifications, the improvement and elaboration of new technologies, joint research and construction projects, and cooperative deliveries involving exchanges of means of production and tools. The majority of transactions had a one-off character, and did not extend to mass production.

According to several Soviet studies only between 10 and 17.5 per cent of cooperating enterprises were engaged in cooperation in the sphere of production, while 36.5 per cent were engaged in singular mutually balanced barter transactions

or made use of spare production capacities (without exchange of payment in currencies), 40 per cent worked on samples of production and prototypes and 61 per cent exchanged specifications (*Pravda Ukrainy* 29 March 1988, 3). Around 50 per cent of enterprises involved in direct links were engaged in research, out of which 16 per cent were connected with the implementation of CPSTP (Kormnov 1990, 10).

Similar results were noted in the case of direct cooperation of Polish and Soviet enterprises. According to a Polish study conducted in major industrial centres, out of 58 economic organisations, only 30 per cent undertook cooperation in the sphere of production, while 75 per cent dealt with the improvement and creation of new technologies and 86 per cent were engaged in joint research (*Rynki Zagraniczne* 23 December 1988, 8).

Furthermore, some direct cooperation had already been conducted within the framework of existing inter-state agreements on production specialisation and cooperation. Thus, it entailed an ordinary sale of cooperation deliveries, and was strictly balanced within bilateral clearing (Baczynski 1988a, 17; Rybakov 1989a, 72).

Direct cooperation between Soviet and East German enterprises had similar results. According to studies conducted by the Inter-governmental Commission for Economic and Scientific-Technical Cooperation, direct cooperation did not play any role in mass production, had practically no effect on the improvement of productivity and did not lead to long-term cooperation (*Rynki Zagraniczne* 15 July 1988, 1).

Direct cooperation and joint enterprises also failed to meet another objective of CMEA strategy, namely the undertaking of cooperation on an economically rational basis. They were frequently a result not so much of economic calculations but of necessity. For example, they were seen as the only way of overcoming financial or

supply difficulties, or shortages of hard currencies, which were causing problems in the expansion of production (Baczynski 1988a, 17; Kormnov 1990, 12).

This was manifest in particular in the case of Polish enterprises which from 1987, became formally self-financing as a part of the economic reform program, and as a result did not have guaranteed deliveries of materials or the financial means to continue investments or undertake modernisation. In the situation of deepening economic crisis, they experienced problems with securing reliable deliveries, and their operation focused on the solution of short-term difficulties, while the issues of the introduction of new technologies or the improvement of the quality of products assumed secondary importance. Furthermore, inflation led to depreciation of their assets and made difficult the realisation of development plans. In these circumstances agreements on cooperation and formation of joint ventures between Polish enterprises with their Soviet counterparts, which were typically much bigger, had their own research bases, and at that time still enjoyed reliable deliveries and were prepared to invest in the modernization of the Polish enterprises, were seen as the only means of increasing the scale of production, securing investment funds and rationalising outlays from research to investment projects (Baczynski 1988b, 18).

Two examples of such situations of 'necessity' were the agreement to set up a Polish-Soviet 'Pollena-Miraculum' Chemical and Cosmetics Plant in Cracow, and the formation of a joint enterprise between a Soviet firm and the Ostrzeszow Mechanical Equipment Plant in mid-1988. In both cases a strong motivating factor was interest on the Polish side (which had been experiencing difficulties with securing deliveries of inputs) in the production and research potential of Soviet factories. Furthermore, both Polish factories were long-standing suppliers to the Soviet Union and these joint ventures were also perceived as means of securing access to the Soviet market, as 60 per cent of final production was assigned for export to the Soviet Union (Baczynski 1988a, 17).

Another reason for establishing direct links was the possibility of substituting imports in convertible currencies, through the barter exchange between cooperating enterprises of products based on Western licences. (Baczynski 1988 b, 17). This reason for cooperation became more frequent with the worsening negative balance of payments in the Soviet Union (*Ekon.sotrud.* 1990:11, 6). Outside this arrangement the sale of finished products was impossible due to a general unwritten rule (with some exceptions) between Polish and Soviet enterprises not to trade in goods which required imports in convertible currencies (Baczynski 1988b, 18).

A clear example of direct cooperation not so much for economic profitability but out of desperation because of financial difficulties, was establishing cooperation in order to make use of spare production capacity, or for exchange of goods and services on a barter basis (*Rynki Zagraniczne*, 15 July 1988, 1; *Ekon.sotrud.* 1990:11, 6).

The sources of difficulties in the direct cooperation of enterprises and setting of joint enterprises

This section will discuss barriers in direct cooperation between enterprises and the formation and operation of joint enterprises. To that purpose, I will compare the actual functioning of the mechanism underlying the results of direct links with the conditions essential for the development of these forms of cooperation and examine the reasons why these conditions were not met.

There had been a general agreement amongst economists, including CMEA experts involved in the Executive Committee's Commission on Currency and Financial issues, regarding conditions necessary for the active participation of enterprises in CMEA integration (Soldaczuk et al. 1983, 401-3; Bakos 1987, 23-4; Morag 1988, 12; *Rynki Zagraniczne* 7 October 1987, 1). First of all, for the development of their direct cooperation, enterprises had to have rights to make

appropriate decisions and to bear responsibility for their realisation; in other words they had to be autonomous and self-financing. Secondly, independent, self-financing enterprises had to have economic instruments to determine the profitability of cooperation with foreign partners and the means to access the domestic markets of their partners and ensure multilateral settlement. For this they needed prices which reflected the costs of production and were tied to current world market prices, single, realistic exchange rates linking external and domestic prices, and mutually convertible national currencies.

The actual independence of enterprises.

In theory, the first condition of the active participation of enterprises in economic cooperation, i.e. the formal autonomy of enterprises, was met. As mentioned earlier, all CMEA countries introduced legislation giving or expanding the formal powers of economic organisations to conduct foreign trade transactions. In practice, however, despite the stated objectives of the reform, the exercise of formal independence of enterprises was limited by several factors.

Firstly, the formal autonomy of enterprises was constrained by the substantial powers retained by national authorities and the functions of the administrative instruments at their disposal at the national and CMEA level. In the Soviet Union, for example, the reforms, on the surface, produced important changes in central management of the economy. As a result of granting rights to ministries and enterprises the Ministry of Foreign Trade apparently lost its monopoly over foreign trade, with the diminution of its powers manifest in the cutting of the Ministry's staff by 30 percent (Aslund 1992, 140).¹ The breaking of the monopoly power of the Ministry of Foreign Trade did not lead, however, to a decentralisation which enabled

¹Ultimately, in January 1988 the Ministry was amalgamated with the State Foreign Economic Commission (GKES) into a new Ministry for Foreign Economic Relations, with apparently new functions of managing the export promotion program (Aslund 1992, 140).

enterprises to act autonomously and did not create the conditions needed to make them interested in export, which was a stated prime objective of the reform strategy. In November 1987 the majority of the enterprises with formal rights to act on foreign markets had not even opened currency accounts with Vneshekonombank, which was a precondition for foreign trade activities.

The reasons for this setback in the implementation of the reform were administrative and economic in nature. Firstly, the rights of enterprises to participate directly in foreign trade remained largely formal. In practice the reform strengthened the branch ministries rather than enterprises that were subordinate to them, and in some cases republican or local authorities also attempted to usurp the foreign trading rights that had supposedly been given directly to enterprises. The monopoly of the Ministry of Foreign Trade, as one commentator put it, had been replaced by the monopolies of a number of ministries invested with powers to conduct external economic activities (Spandarian and Shmelev 1988, 16; Aslund 1992, 138; White 1992, 120). A prime example of the continuing efforts of central bodies to maintain centralised management in spite of the increasing autonomy of enterprises were the inter-ministerial agreements to regulate intra-sectoral specialisation (Gavrilov and Kosikova 1988; Piotrowski 1986, 3).

The rights of enterprises were also limited by new government regulations aimed at protecting them from 'uncontrolled processes', allegedly in order to secure national interests. In 1988 foreign trade and sectoral ministries were given by the Soviet Council of Ministers the right to grant licences for conduct of foreign trade activities which were regarded as important to the State interests. Furthermore, enterprises had to obtain special permits for barter exchanges with foreign partners. The intention was to stop enterprises from gaining profit from non-productive activities. In practice, however, this decision encroached upon the capacity of

enterprises to establish joint enterprises and develop direct links with other organisations (Rybakov 1989, 72-3).

Another factor which obstructed the exercise by CMEA enterprises of their formal rights stemmed from the long isolation of producers in traditional centralised economic systems from foreign markets. This resulted not only in their lack of experience and insufficient knowledge of prices and opportunities for cooperation within the CMEA, but most importantly in the limitation of production to several types of products (*Rynki Zagraniczne* 23 December 1988, 8). Furthermore, this long-term isolation of producers from foreign markets also resulted in a distinct propensity of enterprises for self-sufficiency and extreme caution in dealing with foreign contractors. This attitude obstructed interest in the development of cooperation and specialisation links with foreign enterprises, which were not subject to state guarantees (*Pravda* 28 September 1987, 5).

Furthermore, the degree and kind of limitation on the formal autonomy of enterprises varied in individual countries depending on the differences in centralisation of management and the extent of economic reforms. Polish enterprises were given broad rights to conduct foreign trade activities as early as 1982 (on the basis of the Law of 26 February 1982) and by 1986 practically all economic organisations had obtained rights to develop direct ties with enterprises and organisations, first with Soviet partners, later with other CMEA members. They had significant autonomy and it was a simple formality to obtain official registration. Polish enterprises also did not need to ask superior organs for permission to enter into individual foreign trade operations. Soviet enterprises, however, had to obtain such permission in those instances where their rights conflicted with powers reserved for superior organs. As a result of differences in the actual autonomy of enterprises the negotiations were often complicated by the need to consult superior bodies (*Pravda* 28 September 1987, 5).

The actual economic independence of enterprises

Another group of factors obstructing the cooperation between enterprises and setting up of joint enterprises was related to the actual extent of economic independence of enterprises to participate in foreign economic activities.

As mentioned earlier, the effective functioning of the principle of self-financing of enterprises and full economic accountability was considered as one of the pre-requisites of the effectiveness of these forms of cooperation, and CMEA reform was ostensibly based on this premise. In reality, however, the actual economic independence of enterprises was severely constrained by a number of factors related to the functioning of economic mechanisms at the national and CMEA levels. The actual functioning and effectiveness of such mechanisms depended on the range of economic instruments introduced. However, as will be shown, neither the Soviet Union nor Poland introduced sufficient changes in the economic system to make enterprises interested in exports and responsive to signals from the international economy.

As has been generally acknowledged, among the essential conditions for the genuine autonomy of enterprises are the removal of obligatory planned targets given to enterprises and the renunciation by central agencies of the right to allocate resources. Furthermore, as discussed in chapter 2, the opening of domestic economies and the encouragement of direct cooperation with other CMEA enterprises was dependent on the abolition of the distinction between the domestic and foreign markets. This required the abolition of the foreign trade monopoly, the reform of the domestic pricing system to reflect the true costs of production, its orientation towards the world market, and the introduction of realistic exchange rates of national currencies and at least their partial convertibility.

In practice, however, despite the postulated increase in the economic independence of enterprises, in none of the CMEA countries were these conditions fully introduced. First of all, the economic autonomy which enterprises required in order to conduct foreign economic activities was limited by the continuing reliance on the centralised management of economies. The actual character and extent of central intervention in the economy depended on the advancement of reforms of domestic economic mechanisms.

As discussed earlier, foreign trade reform in the Soviet Union, was based on the assumption of increasing autonomy and economic accountability and self-financing of enterprises. However, the decrees on foreign trade reform provided only rudimentary economic measures to ensure the realisation of this postulated economic independence of enterprises and the removal of barriers between foreign and domestic markets. This could be explained by the fact that this legislation was adopted sixteen months before the adoption of the major legislation of *perestroika*, at the time when reform still relied on traditional administrative measures.

However, *perestroika*, which commenced in 1988, while acknowledging the need for economic accountability of enterprises also envisaged only a gradual introduction of commodity-money relations. The basic conditions for the opening of the domestic economy and encouraging direct cooperation with other CMEA enterprises, mentioned earlier, such as reform of the domestic pricing system, as well as the introduction of realistic exchange rates for the rouble and at least its partial convertibility, were to be introduced only in the last stages of the reform (Spandarian and Shmelev 1988, 17).

In practice the reform did not change sufficiently the functions of the central apparatus; central directives, rather than indirect financial instruments, continued to determine enterprises decisions (*Izvestiia*, 24 April 1988). The most effective

instrument of controlling enterprises were state orders which tended to cover 100 per cent of the planned volume of production and thus did not differ in any way from the plans which were previously confirmed from above.¹ Furthermore, the ministries used the new 'control figures' to determine the production.

The continuing reliance on administrative measures led to significant limitations of the exercise of these formal rights, as enterprises had first to take into account their obligations towards the state (*Pravda* 28 May 1987, 5; *Zycie Gospodarcze* 17 January 1988, 8).² Furthermore, the absence of the financial mechanism and pricing system, which would have imposed budget discipline on enterprises, made the effective functioning of the self-financing principle for enterprises impossible (Aslund 1992, 132). This also meant that there was no effective financial mechanism which would make enterprises interested in production for export, the introduction of new technologies or improvement of the quality of products.

Moreover even the very limited reform measures included in foreign trade reform decrees to encourage export orientation were 'proceeding slowly and with some deviations from original intentions' (*Izvestiia* 10 October 1987, 6). For example, incentives aimed at encouraging export production, such as those provided in the decree of August 1986, which postulated that enterprises were to retain 30-50 per cent of their export revenues proved insufficient in the context of the existing economic mechanism. Furthermore, given the fact that in intra-CMEA trade there was no possibility for using additional transferable roubles, there was no incentive for enterprises to export to this market (*Literaturnaia gazeta* 8 July 1987).

¹In 1988 *Ekonomicheskaiia gazeta* No17, 2 stated that 'for the majority of enterprises and organisations [the production programme] for 1988 is virtually fully composed of state orders. In May 1988 Abalkin pointed out in an interview that, 'Of all the clauses in the Law on Enterprises, in which the conception of state order was formulated, only one has been implemented - about its compulsory character, the others have not been implemented - the state order is spread to virtually all production, and not to the most important part; it is not allocated on the basis of competition; mutual responsibility of the sides has not been assured' (*Izvestiia* 15 May 1988).

²In a typical case of a failed project, a Hungarian factory was interested in exports, however, its Soviet counterpart could not offer anything in exchange because its production was already 'owned' by the state which had set planned targets.

Similarly, the so-called differentiated currency coefficients which were established for various groups of commodities, and whose function was to allow the calculation of a domestic rouble value for each item in foreign trade had to be discarded because they were poorly conceived. As the reform progressed, the number of currency coefficients increased as enterprises demanded more favourable coefficients for particular groups of goods. In the end there was one individual currency coefficient for each significant trade commodity (*Ekonomicheskaiia gazeta* No 47, 1987).

Thus the Soviet foreign trade reform produced contradictory and undesired outcomes. According to Aslund (1992, 145) the Soviet foreign trade system, as a result of this reform, 'remained a not very reformed muddle'. The only practical solution was the cutting of the number of currency coefficients and a move towards a uniform currency exchange rate (*Ekon. sotr.* 1988:2, 4-9). However, in practice the currency coefficients were replaced by a unified commercial exchange rate only in November 1990. At the same time, the commercial rate of the rouble was devalued by 70 per cent (*Izvestiia* 26 October 1990). Domestic prices were changed only in March 1990.

Moreover, in the Soviet Union, the continuing reliance on planned directives meant that economic reform did not change the traditional mechanism of elaborating national plans, which did not take seriously foreign economic ties as a factor in economic growth. Thus the level and composition of trade was still determined primarily by import needs, with exports regarded merely as means of financing imports (Rybakov 1989, 72). As Spandarian and Shmelev (1988, 18) have noted in the Soviet Union, this voluntaristic approach to planning exports even strengthened as the economic situation and trade balance worsened. This preference for relying on the traditional means of administrative commands in the management of foreign economic relations was also reflected in the practice of issuing decrees urging

enterprises to attain world standards in technological level and quality of production (Spandarian and Shmelev 1988,16).

In Poland, the so called second stage of economic and foreign trade reform launched in 1987 went further than the Soviet one in terms of measures aimed at increasing self-financing of enterprises and their interest in foreign trade. The principles of economic reform gave enterprises significant autonomy, or at least made it difficult for central authorities to use directives (Baczynski 1988b, 17). They also included the new principles of setting prices which more accurately reflected economic scarcities, the devaluation of the zloty, and the opportunity for enterprises to buy foreign currencies at currency auctions. In practice, however, despite the attempts to use financial directives to coordinate economic activities, the reform measures resulted in pressures which actually increased the scope for direct microeconomic intervention by the state (Kaminski 1991, 73-6).

In foreign trade, as Piotrowski (1989, 3-5) has demonstrated, the reform measures sought to by-pass institutional barriers between foreign and domestic activities inherent in planned economies. For example, domestic prices remained separated from world market prices and exchange rates remained artificially set and did not reflect the purchasing power of national currencies. In particular, they did not affect the problem of the lack of uniform currency exchange rates for roubles, dollars and zlotys. In any case, it was still much easier for enterprises to sell their products on a domestic 'seller's' market (Zielinski 1987, 3).

Finally, the economic autonomy of enterprises was limited by the design and implementation of the reform of CMEA mechanisms. As discussed earlier, the conditions for the formation of an integrated socialist market, outlined in the 'Collective Concept', envisaged a gradual liberalisation of intra-CMEA trade agreements for 1990-95 by expansion of non-quota and value-based trade, and a

transition to market mechanisms, such as the gradual introduction of convertibility of national currencies and the transferable rouble.

In reality, the reform, as discussed in chapter 4, was not implemented and bilateral trade negotiations remained the core of CMEA mechanism. As the volume of planned trade had not been reduced (and provisions that deliveries of goods and services for their operation were to be taken into account in coordination of plans and included in annual and long-term inter-government trade and settlement agreements remained in force), even those enterprises which were engaged in direct cooperation could exchange only those goods which had been earlier agreed at the national level within the framework of bilateral agreements. The procedure for including these mutual deliveries in such agreed quotas was long and complicated (Baczynski 1988a, 17; Bakos 1987, 22-3).

Problems with the calculation of profitability of foreign trade transactions.

As discussed in chapter 2, CMEA countries did not have adequate domestic or joint economic instruments for calculating the effectiveness of their foreign trade transactions, including specialisation and cooperation of production, and for clearing accounts with CMEA trading partners. Their domestic exchange rates and pricing system were determined subjectively and independently, and their domestic currencies were inconvertible. A striking example of the lack of coherency of the intra-CMEA financial and currency system were exchange rates in CMEA countries: one US dollar was worth twice as much as the rouble in Poland, while in the Soviet Union the reverse was true. Furthermore, the existing intra-CMEA pricing system was also an artificial construct which was not related to the domestic systems of its members. An additional problem was the inconvertibility of the transferable rouble

and its exchange rates which were set at an artificially high level in relation to national and convertible currencies.

The program of reform of domestic and CMEA mechanisms, envisaging at best a gradual transition to a socialist market economy, meant also that these inadequate pricing and financial systems were to remain basically unchanged for quite some time and that enterprises interested in direct cooperation or forming joint enterprises would not have at their disposal economic instruments to determine the financial, and economic aspects of a potential partnership.

The incompatibility of the CMEA financial and currency system with the development of these forms of cooperation became apparent at the stage of preparation of feasibility studies for joint ventures and preliminary discussions on the development of direct cooperation.

First of all, there were immense problems with calculating the profitability of projects - a task which required use of both of domestic and intra-CMEA pricing systems and arbitrary exchange rates (Zielinski 1987, 3; *Rynki Zagraniczne* 15 July 1988, 1). Without proper prices and exchange rates it was also difficult to determine not only the amount of initial capital each country had to contribute but also how any profits would be divided. Nor could an agreement be reached on the division of research costs or the level of final prices (*Rynki Zagraniczne* 23 January 1987, 3-4).

Moreover, the artificial prices of domestic markets, in particular Soviet prices which included high subsidies, did not guarantee a profit on the sale of Polish products to the Soviet Union (*Rynki Zagraniczne* 23 December 1988, 8). This led to the abandonment of a potato processing enterprise after a feasibility study had showed that with the high subsidies on potatoes in the Soviet Union, the project, 80 per cent of whose production was to be exported to the Soviet Union, could not be

self-financing selling its products at Soviet domestic prices. On the same grounds Poland withdrew from the Biala Podlaska cotton-mill project (Baczynski 1988a, 17).

Secondly, due to inconvertibility of national currencies, enterprises had limited possibilities in clearing accounts with CMEA trading partners. The lack of access to national currencies, meant that they could not purchase products on the national markets of their partners. The only form of exchange open to enterprises was simple barter, and only with those enterprises with which cooperation had been established (Zielinski 1988, 1).

In order to eliminate these obstacles individual countries concluded bilateral agreements on the use of national currencies or convertible currencies instead of transferable roubles for mutual settlements made within the framework of direct ties and joint enterprises. They also changed the original provision that prices for the products of these enterprises would be determined on the basis of the intra-CMEA pricing system (*Rynki Zagraniczne* 27 December 1987, 8), and agreed on the introduction of negotiated prices in accounting for their cooperation.¹ For example, a Soviet-Polish agreement signed in April 1988 stipulated that enterprises participating in direct cooperation or joint enterprises had a right to conduct settlements for their services and goods using mutually agreed prices, expressed in transferable roubles or domestic currencies, which could differ from world or domestic prices (Zielinski 1987, 3; *Rynki Zagraniczne* 15 July 1988, 1).

These agreements were accompanied by new banking arrangements which regulated settlements and accounts in national currencies. The Soviet Union and Poland planned to establish a joint financial institution 'Sovpolinvest', whose aim

¹The agreements were signed between the Soviet Union and Czechoslovakia, Poland, Hungary and Bulgaria. East European countries probably concluded similar agreements between themselves, however information has not been readily available.

was to provide and service credits for the operation of joint enterprises (*Rynki Zagraniczne* 15 July 1988, 1).

This partial currency 'convertibility', although falling short of a genuine one, was to give more flexibility to some enterprises in clearing accounts with CMEA trading partners. Settlements in national currencies were expected to enable enterprises to purchase products on the national markets of their partners (*Rzeczpospolita* 8 June 1988). These new arrangements were also aimed at by-passing problems related to the artificial exchange rate of the transferable rouble as settlements in domestic currencies at the negotiated prices avoided its use.¹

In practice, however, the new methodology of price formation and new forms of settlements provided only a limited solution to problems in the development of cooperation between enterprises. This was because these arrangements were not accompanied by the institutional changes in domestic economic mechanisms required for the actual economic independence of enterprises and to stimulate their interest in production for export. The introduction of new financial arrangements, limited to specific transactions, by-passed but did not eliminate the problems of the lack of a proper pricing system or the inconvertibility of currency which were inherent in mechanisms of centrally planned economies.

As a result, given the existing autonomous domestic pricing systems, it was difficult to set a price which would satisfy both sides. This was particularly important in the case of self-financing enterprises where the level of prices affected the wages of their employees. Furthermore, in cases where mutual deliveries of parts were involved, their prices had to be related to the price of the final product, which

¹The possibility of clearing of accounts without the transferable rouble was particularly important for enterprises in countries like Poland where imports in convertible currencies were financed from their own foreign earnings. In those cases when cooperation entailed imports in convertible currencies, settlements in transferable roubles, due to its heightened exchange rate, negatively affected the results of a transaction, and ultimately discouraged enterprises from cooperation with their CMEA counterparts.

should not be higher than world prices. In situations when prime cost determined by agreed prices was higher than the sale price, the negative difference between prices had to be compensated from the state budget. This meant that the self-financing principle was rather illusory as enterprises remained dependent on the state budget (*Pravda Ukrainy* 29 March 1988, 3).

In these conditions, the expectation that direct cooperation between enterprises would constitute the first step in the process which would eventually lead to the introduction of commodity-money relations and mutual convertibility of currencies within the CMEA did not materialise. As Ostrowski has noted (1989, 22), the development of direct cooperation in the situation where bilateral coordination of plans remained the primary mechanism of CMEA cooperation led to the formation of two spheres of exchanges: a regulated and a free one, with specific pricing and currency systems.

Barriers in cooperation due to the lack of competitive export sectors.

Even if enterprises had been able to exercise full rights and had the economic instruments needed to become directly involved in foreign economic activities, this in itself would not have been a sufficient condition for their interest in cooperation, given the economic constraints on cooperation among CMEA economies, such as economic difficulties, shortages and the low technical level of production.

The impact of deepening economic crisis in the national economies of CMEA members on the development of direct ties was particularly well illustrated by the position of Polish enterprises. Their significant formal and economic independence was in practice severely constrained, if not effectively nullified, by problems with securing deliveries, by inflation, which intensified towards the end of the 1980s and by the lack of financial means, both for domestic and foreign trade purposes. Consequently, as mentioned earlier, enterprises were primarily interested in solving

their short-term production problems not in the development of new technologies, or production for export (*Rynki Zagraniczne* 15 July 1988, 1). The problems of securing adequate supplies of materials also affected joint enterprises, which in accordance with legislation were not considered in national plans (Tarnowski 1989, 18; Rybakov 1989, 72).

Structural shortages also had a strong impact on direct ties. They affected not only supplies of materials for production, but also rendered meaningless such measures as the introduction of settlements in national currencies, as enterprises were more interested in concrete goods than in obtaining currency which could not be spent on purchases (Baczynski 1988b, 18).

In some cases, as shown before, economic difficulties, paradoxically, led to cooperation. However their rationality was rather dubious, as the cooperation was the result of desperation and not based on proper economic calculations, and cooperation was often limited to mutually balanced exchanges.

The effectiveness of using economic instruments to encourage foreign trade activity was also diminished by the lack of an internationally competitive export-oriented industrial sector in individual countries. CMEA member economies were characterised, albeit in varying degrees, by low levels of technological development, declining productivity and decreasing competitiveness in manufactures with Western markets and enterprises were more interested in cooperation with the West which could provide crucial technology and funds than in direct cooperation within the CMEA (*Polityka* 30 April 1988, 4).¹ In view of the importance of the Soviet economy in CMEA, the development of cooperation in production depended in particular on the Soviet Union's technological edge in the machine-building sector.

¹In an interview with *Polityka* (30 April 1988, 4) a Polish ambassador to Moscow pointed out that in economic contacts with Western partners there were similar shortcomings in the economic mechanisms, such as artificial exchange rates, as with Soviet partners. However, there were more joint enterprises with the West than with the Soviet Union.

In reality, however as discussed earlier, its exports were dominated by raw materials, and its manufactured goods were not competitive, with only 15 per cent of manufactured goods being of international standards (Shmelev and Spandarian 1988, 17).

There were also no prospects in the short term for the improvement of the structure of Soviet exports or the competitiveness of Soviet products. The Soviet Union's expectations that the implementation of the CPSTP would lead to an improvement in the technological standards of Soviet manufactures did not materialise. Furthermore, Soviet strategy aimed at the increase of economically justified Soviet participation in the international division of labour failed because it was not properly conceived. It lacked proper export promotion measures and focus on the development of modern export-oriented sectors in investment policy (Spandarian and Shmelev 1988, 12; Rybakov 1989, 69).

Deliberate resistance to CMEA cooperation.

Another major obstacle to the implementation of Gorbachev's strategy was the resistance of some East European countries to 'imposed' cooperation, in particular joint enterprises. As discussed earlier in this chapter, Poland, while initially taking part in the political campaign to impose cooperation from above, later resisted politically inspired initiatives and managed to ensure that only economically viable joint enterprises could be formed.¹ Similar barriers on direct cooperation between enterprises were imposed by Czechoslovakia and Hungary which put strict controls on enterprises in their direct trade with other CMEA countries to avoid unprofitable transactions or the export of domestically subsidized goods (Stone 1996, 234-6).

¹By contrast, more politically submissive members, such as Bulgaria, participated without reservations in setting up joint enterprises with the Soviet Union. The possible connection between the degree of political submissiveness and the development of joint enterprises was evident in the number of these ventures in Poland and Bulgaria. For example, in April 1988 there were already seven Soviet-Bulgarian joint enterprises, while only one in Poland (Kuczynski 1989, 76).

The cooperation between enterprises was impeded by the lack of support or the giving of mere lip service to the Soviet strategy by some CMEA members, such as Romania and East Germany, who retained their centralised command systems of management. This was related to differences in the degree of reform of domestic economic mechanisms in individual East European countries which varied significantly as a result of the Soviet policy of allowing them to decide the pace and forms of economic development independently of Soviet reform. As a result of the consistent opposition of these countries to Gorbachev's restructuring of CMEA, the implementation of the CMEA objective of transition to an integrated socialist market had to conform to the capacity of the 'weakest link'.

The significance of such non-commitment for the implementation of CMEA strategies depended on the relative significance of an individual country in CMEA. Romania's reluctance to participate in the CPSTP, or its decision to remain outside the policy of a unified market (the only CMEA member to do so) did not affect greatly the implementation of Gorbachev's strategy, as Romania accounted for only about 3.5 per cent of all intra-CMEA trade. Of a different order, however, was East Germany's decision in 1987 to opt out of the CMEA's plans for currency convertibility. The GDR was economically the strongest, and perhaps the most technologically advanced CMEA member which accounted for about 15 percent of all intra-CMEA trade. Thus without the GDR's participation integration within CMEA was unlikely to be successful.

Summary: The reasons for the failure of involvement of enterprises in CMEA cooperation

This part of the chapter demonstrated that despite political pressure and the creation of a legal basis for the development of direct cooperation between enterprises and the formation of a common market, the results of Gorbachev's

strategy were insignificant. The first reason for the failure of this strategy was the lack of appropriate economic mechanisms and sufficient institutional changes which would enable enterprises to exercise their legal and economic independence and make them interested in foreign trade activities.

As discussed in chapter 2, the domestic mechanisms of CMEA member economies were characterised by the absence of an effective financial mechanism which would make enterprises responsive to the requirements of the international economy and encourage an export orientation. The success of Gorbachev's strategy was thus dependent on the elimination of these structural impediments inherent in domestic mechanisms. This required the abolition of the foreign trade monopoly, the reform of the domestic pricing system to reflect the true costs of production, its orientation towards the world market, and the introduction of realistic exchange rates of national currencies and at least their partial convertibility. Such a fundamental transformation of domestic economic systems would have to precede the formation of direct links.

Reforms undertaken in Poland and the Soviet Union did not, however, remove these structural impediments to the participation of enterprises in foreign trade activities which were inherent in the traditional Soviet-type of economic management. While they introduced half-measures such as the use of national currency in mutual settlements, they fell short of introducing measures which would ensure genuine self-financing of enterprises. Enterprises still had to operate within the framework of artificial domestic prices, exchange rates, and inconvertible currencies.

This approach to reforming the CMEA's mechanism of cooperation was consistent with the general principles of Soviet reforms which were not aimed at undermining the logic of operation of the economic system, but only at its

improvement. Furthermore, the Soviet reform of foreign trade at that stage still did not seek to open up the Soviet economy to the international market. Ultimately the reform of CMEA had to be subordinated to Soviet priorities of reform and the success of any CMEA reform was dependent on the state of the system of management of the Soviet Union's national economy. The lack of improvement, despite Gorbachev's reforms, in the area of the formation of wholesale trade and in the expansion of the economic functions of enterprises made impossible corresponding changes in the mechanism of CMEA cooperation.

The implementation of the reform program was also frustrated by East European resistance to the direct involvement of enterprises in CMEA integration. This was partly caused by the reliance in a majority of CMEA countries on the centralised management of economies and their refusal to introduce conditions to increase the autonomy of enterprises. Other, more reform-oriented members, obstructed the development of direct cooperation by placing controls on the operation of their enterprises for fear of exporting subsidised goods.

However, even if the necessary economic instruments for cooperation had been introduced in all CMEA countries and enterprises had been able to exercise full rights and had the economic instruments needed to become directly involved in foreign economic activities, the development of direct ties would still have been hindered by the economic constraints on cooperation among CMEA economies. These objective, structural barriers in the development of economic relations within the CMEA, such as economic difficulties, structural shortages experienced by CMEA members and the low technical quality of production, were a product of the extensive-type development of previous decades and a sign of the decreasing effectiveness of Soviet-type economies.

Furthermore, it was doubtful whether enterprises would be interested in trade with other countries of the region given the generally low technological levels of manufactured products, in particular, the Soviet Union's lack of technological edge. Moreover, East European economies were not complementary and lacked internationally competitive industries and were more interested in Western technology. This was confirmed by the developments after 1990 when, following disintegration of CMEA and the decreased involvement of the Soviet Union, existing ties between market economies of former CMEA countries proved to be insufficient for maintaining close cooperation.

Conclusion.

The problems with the implementation of CMEA strategies under Gorbachev derived primarily from the structural impediments to economic cooperation inherent in centrally planned economies - impediments which were not removed by the limited reforms of domestic economic systems. The limited character of domestic and CMEA reforms was the result of Soviet Union's own inability to reform its own domestic economy. Furthermore, the reforms encountered objective structural barriers such as shortages, inflation, indebtedness and the lack of funds, which also derived from the internal logic of the domestic mechanisms of CMEA countries.

The discussion has thus demonstrated that the responsibility for the failure of Gorbachev's reform of economic relations rested primarily with the Soviet Union. The problems hindering CMEA cooperation were the product of the logic of the operation of domestic economic mechanisms based on the Soviet-type model which could not be overcome while the Soviet Union maintained its centralised economy.

The implementation of CMEA strategies was also hindered by the effort of East European countries to minimise their participation in projects which conflicted with their interests. The behaviour of East European members was, however, a rational

response to protect their interests in the face of the Soviet Union's attempts at subordinating CMEA to its objectives and their need to find resources to modernise their economies with Western technologies, while having to operate within the constraints of institutional arrangements which precluded them from competing effectively in the international markets for manufactured goods.

CONCLUSION

The process of economic cooperation among Soviet bloc countries was an example of several attempts at regional integration undertaken in different parts of the world in the post-war period. A key objective these initiatives had in common was the improvement of the economic potential of a group of countries on the basis of a more rational division of labor. This objective was also at the core of development of economic ties within the CMEA. What, however, made the case of this organisation different was firstly, that it involved centrally planned economies, and secondly that the integration of CMEA countries was not a mutual, voluntary act of interested states, but a part of the Soviet strategy of domination of East European countries. Thus apart from its economic objectives, CMEA was one of the Soviet bloc's institutional mechanisms whose role was beneficial from the point of view of securing Soviet political interests: its economic functions were subordinated to the principal goal of maintaining Soviet political influence throughout Eastern Europe by way of its dominance of intra-bloc economic relations.

The central argument of this thesis has been that political criteria in Soviet decision-making regarding CMEA, stemming from the commitment to securing Soviet domination, took precedence over economic criteria, and consequently CMEA objectives and mechanisms of cooperation had to be functional from the point of view of maintaining the Soviet system of political control over Eastern Europe and securing the political stability of its domestic system. In accordance with these political criteria, CMEA programs were subordinated to Soviet domestic economic priorities, the mechanisms of cooperation were not permitted to undermine the political underpinnings of the Soviet domestic system and had to conform to the Soviet model of economic management.

While stressing the dominance of political criteria in determining key features of CMEA operation, I have not argued that the CMEA was established for purely political purposes. I have demonstrated that CMEA was an answer to many economic considerations such as the need to develop a rational pattern of allocation of resources based on specialisation according to comparative advantage. I have also shown that the needs of the USSR economy were given high priority in Soviet decision-making regarding intra-CMEA economic relations. I have also demonstrated that the Soviet Union did not envisage CMEA cooperation as a means of subsidising East European economies and that it consistently sought to minimise the economic costs of maintaining its empire through the subordination of East European economic policies to the requirements of the Soviet economy.

Thus, while not underestimating the importance of Soviet economic objectives in CMEA decision-making, I have argued that political criteria were more important than the introduction of efficient mechanisms of cooperation or terms of cooperation which would have been economically profitable for all CMEA participants. In other words, the Soviet Union was prepared to maintain economic relations which were not profitable together with inefficient mechanisms of cooperation which obstructed the expansion of cooperation, provided they were politically functional. Thus, ultimately, CMEA was primarily a political rather than an economic institution whose economic functions were determined by its political role as an instrument of Soviet political influence over Eastern Europe.

In Chapter 1, I discussed the CMEA's role in Soviet bloc politics during the Stalinist period. I demonstrated that in the first two years of its operation, until the 3rd Council Session in November 1950, during which the CMEA had an active role in intra-bloc relations, its main role was that of a de-facto supra-national authority with decision-making powers to determine the directions of economic development and set production targets to be met by key sectors within the individual national economies of

East European countries in line with Soviet priorities. Moreover, the CMEA presided over the enforced reorientation of the foreign trade of member countries towards intra-bloc exchanges by exerting pressure for the conclusion of long-term trade agreements. It served also as an instrument of pre-empting direct bilateral contacts between individual East European countries and the formation of a subregional integration groups by the establishment of chiefly bilateral economic relations between the Soviet Union and its satellites. The CMEA was also used to put pressure on individual East European countries to abrogate their trade agreements with Yugoslavia following the breaking of political relations with Tito.

I acknowledged that some of these functions, such as the diversion of trade towards intra-bloc exchanges, the subordination of East European economic planning to Soviet priorities and the separation of East European economies from world markets by weakening their trade links with the West, were economically beneficial for the Soviet Union, as they contributed to meeting Soviet domestic economic needs and assisted Soviet military plans, thus supplementing other economic measures aimed at the exploitation of East European economies. They also ensured the dominant economic position of the Soviet Union within the bloc and served Stalin's priority of integrating East European economies with the Soviet Union's.

I argued, however, that while these economic advantages should not be underestimated, they were not a primary motive for setting up the CMEA. An analysis of CMEA functions demonstrates firstly that its primary objective was to ensure political stability and to secure Soviet political interests in the region, and secondly that securing Soviet economic dominance within the bloc through measures aimed at forcing CMEA members into a relationship of dependency on the Soviet economy and the subordination of East European planning to Soviet priorities was primarily a means to this end, not an end in itself.

This argument for the overriding importance of political criteria in decisions on CMEA economic functions is supported by the fact that the methods of its operation were conceived primarily as means of consolidating the system of political subordination of Eastern Europe rather than ensuring cooperation based on the rational pattern of allocation of resources. If Soviet decision-making criteria in determining methods of CMEA cooperation were primarily economic, then the CMEA would have been allowed to perform the functions of an organisation for regional cooperation based on the coordination of national economic policies, particularly investment decisions. Technically, the investments in these countries could have been made on the basis of co-ordination of national plans, and the CMEA might have secured national specialization within particular branches of industry consistent with their natural resources and technological potential. This was not, however, the case in practice as the Soviet Union blocked attempts by its satellites to establish mechanisms for the multilateral coordination of economic policies and for determining the areas of specialisation. As a result, East European countries, having been forced to implement a uniform strategy of economic development based on heavy industry, developed parallel high-cost industrial branches without regard for their raw material base, and mutually competitive rather than complementary industrial structures within the bloc.

Furthermore, without the Soviet Union's need to shore up its political position by the creation of a separate socialist market, Eastern European countries would not have been forced to reorient their trade relations towards intra-bloc trade at the expense of their traditional ties with West European countries. Political considerations were also a motive behind CMEA activities aimed at establishing the radial pattern of intra-bloc relationships which provided the Soviet Union with more effective levers of control over policies of its satellites than would have been possible if East European countries had been allowed to continue direct interaction without the Soviet Union's prior approval. Likewise, the ban on trade with Yugoslavia served the political objective of

forcing Tito to accept the Soviet Union's authority while having a detrimental effect on the economic exchanges of its satellites. As a result of the primacy of the political criteria these CMEA activities while functional from the point of view of securing Soviet political interests in the region, were detrimental to the East European economies and the long-term prospects of intra-bloc economic cooperation.

The primacy of political criteria in Soviet decision-making was also apparent in a decision to reduce the CMEA's role to the elaboration of procedures for trade agreements once Stalin had decided to rely on direct interference in the planning systems and primarily informal ties to maintain Soviet control over Eastern Europe. If the CMEA had been allowed to play the role of an organisation for multilateral regional cooperation which sought to coordinate plans and elaborate a common economic policy, this could have influenced the allocation of industries on a more rational basis than the one imposed later by the direct interference of the Soviet Union.

The main objective of Stalinist economic policy towards Eastern Europe was thus not the integration of the bloc economies by means of a common strategy based on production specialisation and comparative advantage but the securing of greater control over Eastern European economies as a means for securing their political subordination. As a result of the primacy of political criteria in CMEA decision-making only those objectives and mechanisms of cooperation were allowed which were functional from the point of view of the objective of Soviet political domination.

Following Stalin's death, the new Soviet leadership seemed to have acknowledged the negative economic consequences for member countries of the dominance of political criteria in the determination of their economic policies and of the reliance on foreign trade agreements for the coordination of their economic strategies. It was not, however, until 1957 that the CMEA was allowed to assume the function of coordinating the economic policies of its members. In the meantime, the coordination of economic plans

was conducted effectively by Gosplan, which arbitrarily assigned to individual East European countries targets for output and export levels without regard to their own production capacities, import needs or balance of payments.

Thus, as under Stalin, the Soviet Union used CMEA mechanisms to dictate economic policies to Eastern Europe and organised the cooperation and structure of exchanges which would be most efficient from the point of view of the political criteria of securing control over the region, rather than allowing countries to pursue economic policies consistent with their economic priorities and developmental needs.

There was, however, a change in the Soviet approach to the functions of intra-bloc economic cooperation after 1957. The impulse came from a gradual shift in Soviet policy towards an increase in the internal autonomy of the satellite countries, subsequently reinforced by protests in 1956 in Hungary and Poland against the Stalinist methods of rule. These upheavals led to the recognition by the Soviet leaders of the need to renounce the policy of direct interference in East European economic policies and replace it with new methods of bloc management which recognised the need for East European governments to build their own domestic basis for legitimacy based to a greater degree on economic performance. Furthermore, the signing in March 1957 of the Treaty of Rome which established the European Economic Community posed a challenge to socialist countries to find appropriate ways of making the bloc economically competitive in relation to the West. As a result of these intra-bloc developments and external pressures the Soviet Union moved finally away from the exploitation of East European resources towards the establishment of more equitable commercial ties. It also took steps towards regional economic cooperation which would, on the one hand, meet the challenge of the integration policies of the West, and on the other, allow East European governments to secure economic growth in line with their domestic needs and technological capacities. The result of taking into account these political and economic considerations was the formulation in 1958 as the main CMEA

objective the development of an international socialist division of labor (ISDL) based on the specialisation and the coordination of production. The ISDL was proclaimed as an instrument for the rational use of national resources and for avoiding parallel economic development, raising the efficiency of production, achieving high rates of growth, and gradually diminishing the differences in levels of economic development between member countries.

The rejuvenation of the CMEA and the re-orientation of economic policies towards a more rational allocation of resources was thus motivated to a large degree by economic considerations. The policy was not, however, carried out in disregard of Soviet political domestic and regional interests. The renunciation of Stalinist methods of terror and direct interference required new methods of managing bloc relations and political criteria continued to be a decisive factor in determining CMEA mechanisms and forms of cooperation.

The primacy of political motives was evident first of all in the choice of the methods of CMEA cooperation. The principal mechanism for the coordination of economic policies of CMEA members was the coordination of national production and investment plans in selected sectors with financial instruments playing a passive role in this process. The dominant role of administrative instruments was consistent with the commitment of the Soviet leadership to centralised planning as the basic principle of the system of management and with a claim that planned economic development guaranteed a high and steady rate of growth. The conformity of the principles of cooperation with the basic principles of the Soviet model was also essential from the point of view of the maintenance of legitimacy of the Soviet domestic system. This choice was, however, doubtful judging by the criteria of economic rationality, as inherent in its logic were limitations which seriously impaired the effectiveness of CMEA mechanisms as instruments for multilateral cooperation, in particular the coordination of investments and the development of specialisation and cooperation in the production sphere.

Moreover, the methods of implementation of CMEA strategies were subordinated to the Soviet Union's desire to ensure the continuing integration of East European economies and their systems of management into the Soviet system. Accordingly, the coordination of plans, which was the basis for selecting the main areas of specialization and for determining the structure of intra-bloc trade, was aimed at ensuring that the priorities of economic development of East European members were linked with the targets of Soviet economic plans. This policy was beneficial, if judged by the political criterion of securing greater control over the member economies to ensure that East European economic strategies did not undermine the Soviet Union's dominant economic position in the bloc. Similar considerations lay behind Khrushchev's proposal of transforming the CMEA into a supranational body with the national planning agencies subordinate to its authority.

The political considerations were also evident in the continuation of the Stalinist policy of the development in satellite countries of industries producing mainly for the Soviet market and dependent on Soviet raw materials and energy. While, admittedly, this model of cooperation enabled the development in East European states of the machine-building industries, the specialisation for the Soviet market was not economically viable in the long-term as it encouraged development of material and energy-intensive industries which were isolated from the conditions of the international economy. Furthermore, it had a negative effect on the prospects for economic integration, as it was not conducive to the development of complementary links between East European countries. These economic criteria were, however, assigned a secondary place to the Soviet priority of maintenance of a self-perpetuating and structural dependence of East European national economies on Soviet supplies and markets.

In sum, Soviet policy towards the CMEA under Khrushchev evolved from using it as an instrument for the arbitrary imposition of Soviet objectives on East European economies, to the development of economic cooperation which allowed East European

members some degree of economic autonomy and provided mechanisms to elaborate a common strategy of intra-bloc cooperation. However, despite this increased emphasis on economic criteria, the political motives of ensuring conformity with the Soviet model, and securing for the Soviet Union a dominant economic position in the region were more important than the introduction of efficient mechanisms of cooperation and economically-justified bloc-wide specialisation. In other words, principles of CMEA cooperation dictated by the logic of securing the Soviet political position through perpetuating economic dependence and control were more important than the potential economic benefits which could be obtained through the introduction of efficient mechanisms of cooperation and specialisation directions in line with domestic economic conditions and world market requirements.

Brezhnev and his two successors continued this policy of using CMEA for fostering intra-bloc economic cooperation, while ensuring that it could be used as potential levers of control over East European policies. In comparison with Khrushchev's approach the emphasis was shifted again towards increasing the contribution of East European states to the needs of the Soviet economy. An emphasis on political criteria in decision-making was reflected in the introduction of mechanisms of cooperation which secured Soviet control over East European economies, but did so at the expense of their efficiency and by inhibiting modernisation of bloc economies and the acceleration of scientific-technological progress, which would have increased in the long-term economic viability of the bloc.

In the first years of Brezhnev's rule economic considerations guiding Soviet policy towards CMEA were related first of all to the growing concerns among its members with finding appropriate strategies to overcome the slowing down of the rates of growth of production and declining productivity and the increasing gap in terms of quality and technological standards between the Soviet bloc and Western products.

For the Soviet Union itself a major economic consideration was also the question of ensuring the economic viability of the existing model of cooperation based on the exchange of Soviet raw materials and energy for manufactured products from East European countries. This strategy was increasingly perceived by the Soviet policy makers as too costly, as the rising costs of the development and transportation of raw materials rendered their exports relatively unprofitable. Moreover, the perception of the unprofitability of these exchanges was enhanced because East Europeans paid for their imports with manufactured products below the technological standards and quality of Western products but valued at world market prices.

These issues did not have purely economic importance, but had political implications for the maintenance of Soviet influence as well. The structural problems with ensuring the economic viability of Soviet bloc countries held serious possibilities for undermining the political stability of individual countries as well as bloc cohesion. Moreover, while the model of cooperation was relatively unprofitable, it had the distinct political advantage of perpetuating dependence of East European economies on the Soviet market and energy supplies and could not be abandoned without jeopardising Soviet political domination. The task of finding appropriate solutions to these problems became even more urgent after 1968 as the consolidation of the Soviet bloc's 'unity and cohesion' was placed high on the Soviet agenda in the wake of the invasion of Czechoslovakia, and as a result of disagreements in the communist movement and the prospects for a rapid expansion of economic exchanges with the West.

These economic and political concerns were addressed in the 1971 Comprehensive Program (CP) which outlined the strategy of socialist economic integration. The economic objectives of the CP included the attainment of greater efficiency in the region-wide allocation and utilization of productive and scientific and technical resources, the development of specialisation and cooperation in individual branches of production, in particular in the machine-building industry, and the introduction of

advanced technological processes in the key sectors of the national economies. The implementation of the CP was intended to transform the traditional model of cooperation from a reliance primarily on trade ties to one in which relations between member economies were based on regional specialization and cooperation in the production sphere. A related outcome was to be an improvement in the structure of intra-bloc trade as a result of a transition from trade in energy and raw materials to trade in manufactures and equipment and an increase in the proportion of technologically advanced products in intra-CMEA trade.

While this strategy appeared to be guided by economic considerations, sharing the benefits of cooperation among all members, in practice integration strategy was the outcome of Soviet calculations of its potential political and economic gains and losses with political criteria ultimately of overriding importance.

The dominance of political criteria was implicit first of all in the Soviet Union's decision not to change the pricing system towards more equitable terms of exchange, despite a perception that CMEA's trade was becoming an increasing financial burden. A decision made on the basis of economic criteria and the renunciation of the trade arrangements which ensured the perpetuation of the dependence of Eastern Europe on the Soviet economy, while bringing immediate economic benefits, would have been tantamount to foregoing the political advantages of this model which provided the means of exerting political pressure on the Eastern European states. This model of cooperation allowed the Soviet Union to use its leverage as the supplier of raw materials and energy to achieve political submission of its satellites by determining the terms on which trade agreements were conducted i.e. the levels of Soviet deliveries or prices were dependent on the degree of conformity with Soviet policy directives. For example, under Brezhnev, East Germany and Bulgaria got disproportionately large deliveries of oil as a reward for the pursuit of pro-Soviet policies. The Soviet Union's decision to maintain a model of cooperation which was not profitable for the Soviet economy but

which encouraged the continuing dependence of East European members on the Soviet economy was thus the result of the political determination to forsake its short-term economic advantages for long-term political gains.

Moreover, the Soviet Union did not intend to subsidise Eastern Europe indefinitely. The integration strategy was primarily designed to ensure in the long-term a decrease in the Soviet costs of maintaining the existing model of exchanges at a substantial cost to East European economies. The measures aimed specifically at minimising the perceived losses incurred through trade and entailed a number of 'reverse subsidies' imposed on its satellites through forced participation in the development of Soviet fuel and energy resources and specialisation agreements. These 'subsidies' entailed sharing in transportation expenditures related to joint investments, provision by East European members of cheap credits raised in the world financial markets, provision of labour and services below world market prices and imports of costly Western technologies, paid in convertible currencies, which were needed in order to produce the high quality products demanded by the Soviet Union.

From the mid-1970s the strategy of seeking an increase in East European contributions to Soviet priorities resulted in cuts in Soviet deliveries of raw materials, pressures for an improvement in the quality of East European machinery exports, and specific demands regarding the composition of exports. East European states were also forced to subsidize less developed Soviet Third World client states by importing their products. Poland for instance, an exporter of sugar herself, was obliged to import sugar from Cuba.

Furthermore, the Soviet policy-makers expected that intra-branch specialisation agreements would lead to the improvement of the technological standards of Soviet final products, and thus the improvement of the Soviet terms of trade by an increase in the share of manufactured products and a reduction in the share of energy and raw materials

in Soviet exports to CMEA. The Program aimed to improve the Soviet foreign trade structure, and thus terms of trade, by reducing the share of energy and raw materials in Soviet exports to Eastern Europe, and reducing the share of East European manufactures in Soviet imports.

The terms of trade agreements, the forced contributions to joint investment projects and specialisation agreements often conflicted with the requirements of East European economic development strategies, as they resulted in the diversion of national resources away from investments in modernising their economies. Moreover, specialisation agreements interfered with the viable development of the East European economies, as they fostered the specialisation within one market instead of allowing East European enterprises to develop production which would meet the requirements of international markets.

Soviet disregard for East European economic interests continued in the early 1980s when the Soviet Union implemented measures aimed at the prompt reduction of East European trade deficits which had significantly increased as the price of oil on the CMEA market began to rise. It insisted, for example, on the redirection to the Soviet market of East European goods meant for Western markets, thus diminishing their earnings of convertible currencies, or demanded imports of products which were essential for the operation of their national economies. When oil prices began to fall and the output of Soviet oil began to stagnate, the Soviet Union, in order to maintain its foreign currency revenue, responded by reducing sales to the CMEA by over 10 per cent and increasing exports to the West.

Another sign of the subordination of CMEA decision-making to Soviet political interests rather than to economic criteria of efficiency was evident in the choice of CMEA methods of cooperation. The CP was to be implemented chiefly by joint planning and the strengthening of the CMEA organisational structure, with the

instruments of indirect coordination playing a passive role in foreign trade transactions. The continuing reliance on the planned instruments of CMEA cooperation was a direct consequence of the decision of the Soviet leadership following the invasion of Czechoslovakia to limit economic reforms in Soviet bloc countries to the streamlining of the existing system of economic planning and management, with any increase of the independence of enterprises subordinated to the overriding role of central planning. Brezhnev was afraid that more radical reforms involving decentralisation of decision-making could undermine the political underpinnings of the system. This meant that the barriers to cooperation, inherent in the economic mechanism of centrally planned economies, described in chapter 2, were preserved. In the absence of a reform of CMEA pricing, planning and currency systems, specialisation agreements were ineffective and formalistic, as under CMEA and domestic pricing systems there were no financial incentives to invest in technology and develop intra-branch specialisations.

The persistence of ineffective mechanisms of cooperation hindered the implementation of strategies in several ways. Firstly, these mechanisms did not provide sufficient incentives for enterprises to produce for export, to increase productivity and ensure high quality of products. Secondly, they contributed to the continuation of the dependence on intensive and material-energy technologies. The third negative consequence was the impossibility of developing multilateral cooperation and the lack of economic incentives for the development of production for export and intra-branch specialisation agreements. This underlying mechanism affected the performance of all CMEA members who failed to fulfil their commitments in particular with regard to the implementation of specialisation agreements. As a result, none of these apparently rational measures, which were intended to contribute to a breakthrough in mutual ties and shift the basis of cooperation from trade relations to regional specialization and cooperation of production, were successful.

The outcome of political calculations was also the introduction of new procedures of plan coordination, including joint planning, which were to ensure that the implementation of the strategy was subject to Soviet control. The formulation of a joint plan was based on a principle that the establishment of common objectives for a given sector or type of production should be completed before national plans were approved and that these objectives should be included in the national plans of each participating country. The new procedure of 'pre-plan coordination' presupposed the gradual transfer of planning prerogatives from national authorities to central planning organs in CMEA. This would considerably increase Soviet powers with regard to the development of specific production branches in line with the priorities of the Soviet economy. In other words, the joint plan would function as a kind of supranational plan which would allocate investment projects to participating countries from a Soviet rather than a national viewpoint. The subordination to Soviet preferences was also ensured in the case of joint investments which were subject to Soviet control over all their main aspects: conception, planning, production and distribution.

In Chapter 4, I examined decision-making criteria regarding intra- bloc economic relations under Gorbachev. I showed that during that period CMEA's role and the relative importance of political and economic criteria in CMEA decision-making underwent three changes directly related to shifts in Soviet foreign policy priorities in Eastern Europe.

In the first phase, lasting until the end of 1987, economic considerations in Soviet policy towards CMEA were related first of all to the state of the Soviet economy which was characterised by a persistent decline in the rate of economic growth, poor efficiency in the utilisation of raw materials, and an increasing gap in terms of quality and technical level of manufactures in relation to industrialised countries. These symptoms of worsening economic performance also characterised other bloc countries. Moreover, it seemed that the costs of maintaining an 'empire' could only increase, as the Soviet

Union was even compelled to extend credits to some East European countries to alleviate their economic problems.

Another major Soviet economic consideration was the constraint on the development of the existing model of intra-bloc exchanges of Soviet raw materials for finished products from Eastern Europe evident in a sharp decline in the real volume of intra-CMEA trade. This was the result of the combination of Eastern Europe's inability to provide the required goods and the declining potential of the Soviet Union to maintain existing levels of exports of energy and raw materials and meet growing East European demand for these products. Furthermore, the competitive nature of East European economies, poor technical levels and low quality of their largely uncompetitive exports offered little incentive for CMEA countries to trade with one another.

In terms of political considerations, the Soviet Union still regarded as an overriding priority the securing of its strategic interests and the maintenance of the system of political control in Eastern Europe, and viewed with apprehension the constraints on expanding cooperation within CMEA. With the breaking down of the material basis for cooperation, the Soviet Union was in danger of losing the instruments for influencing its members as well as the basis for CMEA cohesion. There was no immediate alternative, as the Soviet Union was unable to secure its influence and economic position by means of high-technology exports.

Soviet strategies for solving these domestic and intra-bloc problems included two CMEA initiatives: the CPSTP and the development of direct cooperation between enterprises and the creation of joint ventures. At the level of formal pronouncements these two strategies seem designed to improve the economic performance of all member states. The strategy of cooperation outlined in the CPSTP was aimed at the modernisation of the production base through the introduction of modern technologies

and methods of management of production. It was seen as a means of increasing the quality and technological level of production thus leading to an increase of high-technology products in CMEA exports and their competitiveness in the world market.

The strategy of developing direct participation of economic organisations in CMEA cooperation was based on an increase in the legal and economic autonomy of enterprises which was designed to give producers an incentive to expand the production of goods for export and force them to introduce technological innovations and improve the quality of products. Accordingly direct links were seen as the most effective means of raising efficiency, and ultimately improving the quality and competitiveness of products. They were also regarded as the primary instrument for the radical transformation of the traditional model of cooperation by ensuring a shift from primarily trade-based ties to extensive specialization and cooperation links and increasing exchanges of goods produced on a cooperative basis.

An examination of their objectives and methods of cooperation demonstrates, however, that the actual objective of these measures was primarily to secure, in the long-term, the dominant Soviet economic position in intra-bloc economic relations through an improvement in the technological standards of Soviet manufactures and the generation of alternative forms of economic dependence. The political criteria also determined the methods of cooperation which were primarily aimed at extracting the highest possible contribution to Soviet projects from its partners through subordination of East European economic planning to Soviet priorities and the control of the implementation of the program by Soviet organisations, rather than the development of cooperation based on an active participation of CMEA members in world economic relations.

With regard to the CPSTP this motive was evident first of all in the selection of designated areas of the program which were identical to the sectoral priorities adopted in

the Soviet 12th five-year plan. These objectives of the Program set the investment priorities for the 1986-90 national plans of East European countries and were to be taken into account during the coordination of economic plans. In accordance with these provisions, East European states were responsible for securing the material and financial means for the implementation of CPSTP projects. The subordination of the CPSTP to Soviet political and economic objectives was also indicated by the Soviet Union's withdrawal of its own most advanced technology from the program, on the pretext that it had military application. This behaviour combined with the lack of adequate protection of copyrights, which enabled the Soviet Union to appropriate the technology provided within the projects by East European participants, meant that the Soviet Union used the CPSTP as a one-way flow of technology.

Furthermore, the primary political functions of the CPSTP were implicit in the notion that new technologies introduced under the program should be generated primarily within the bloc. From the Soviet perspective this strategy of CMEA technological self-sufficiency was consistent with the continuing political tensions in relations with the West, which limited Soviet access to Western technology. It was also in conformity with the Soviet desire to control the development of Eastern European economic relations with the West, which were perceived by the Soviet Union as threatening the maintenance of power and stability in Eastern Europe. However, this logic was in conflict with the East European preference for importing technology from the West as the most effective method of improving the efficiency of their economies. Furthermore, by participation in the CPSTP they had to forego opportunities to develop particular sectors in line with the requirements of world markets, as they were forced to direct their research and investment towards the specialised Soviet market instead of towards the mainstream world market.

The overriding importance of political criteria was similarly evident in the design of CPSTP management structures which were to ensure the exercise of direct Soviet

control over the implementation of projects by East European organisations and the integration of East European scientific and technological networks into the Soviet infrastructure.

A political objective of incorporating key areas of East European economies into the Soviet management system was also implicit in the Soviet pressure for the development of direct cooperation and setting up joint ventures. This motive was indicated by the terms of the establishment of joint enterprises, proposed by the Soviet Union, which allowed the Soviet side to exercise control over the operation of enterprises, even if they were not located on its territory.

Finally, the political criteria of conformity with the Soviet model and with the principles of Soviet foreign trade reforms, rather than the economic criteria of efficiency, determined the mechanisms of implementation of these strategies. Soviet reforms removed some of the formal constraints on the autonomy of enterprises but did not deviate from the principle of the monopoly of foreign trade which was the main barrier to direct cooperation between producers and research groups and the setting up of joint enterprises in centrally planned economies. The underlying assumption was that, instead, the changes in the independence of enterprises would make it possible to by-pass the state monopoly of foreign trade. By the same logic, it was expected that the cooperation of enterprises operating under the arrangements of the CPSTP would eliminate departmental fragmentation which inhibited the resolution of key inter-branch scientific and technical problems. Cooperation between individual enterprises was thus seen as a way of overcoming the barriers obstructing technology transfers between individual economies, caused by their institutionalised isolation. These inherent limitations of the reform meant, however, that it did not introduce sufficient changes to create economic conditions which were necessary for the direct cooperation of enterprises, and as a result the envisaged mechanisms of cooperation could not operate effectively. This meant that CMEA countries had to rely on the traditional and inefficient

mechanisms of cooperation which created institutional barriers to efficiency by obstructing technological innovation and a pro-export orientation of production.

In the second phase of Gorbachev's rule, covering the period until the end of 1989, the main CMEA program was the 'integrated common market' strategy adopted in 1988. The strategy outlined the stages for the gradual formation of the conditions for a socialist 'common market' based on free movement of goods, services and other factors of production, with the active involvement of economic organisations in intra-bloc cooperation. In contrast to the previous 39 years of CMEA operation, the socialist market was to be built in cooperation with capitalist countries and by adjusting the development directions of its participants to the requirements of the world economy. This shift in policy came in the wake of the admission by the Soviet leaders of the failure of the self-imposed isolation from the world economy and their acknowledgement of the need for active participation in world economic relations as the most effective means of accelerating economic growth. This shift in policy signified giving greater importance to economic criteria in the development of CMEA economic cooperation and implied a new Soviet understanding of the importance of national economic interests in relation to political interests in its policy towards Eastern Europe.

Despite the new rhetoric, the primary objective of the common market strategy was to ensure the expansion of Soviet control over their economic policies, thus enhancing the Soviet Union's political leverage over CMEA members. This motive was implicit in the Soviet Union's opposition to any reforms which would drastically change the traditional system of inter-state bilateral agreement towards a more liberalised system of exchanges and a CMEA pricing system based on more equitable principles. The reason was that the traditional model of cooperation ensured the preservation of trade arrangements which kept Eastern Europe dependent on the Soviet economy and any liberalisation would have led to a loss of the levers of political influence.

The political criterion of conformity to the principles of the Soviet economic model also had a decisive importance for the limited and evolutionary character of the reform of CMEA cooperation mechanisms. Gorbachev's program for the restructuring of the system of economic management combined the increased economic and financial rights of enterprises with centralised economic management because of the fear of the Soviet leadership that more radical changes might endanger its control over the national economy. In effect, the reforms did not remove structural barriers which were inherent in the traditional Soviet-type economic management and did not introduce the organisational and economic conditions necessary for the participation of enterprises in foreign trade, as such changes necessitated market-oriented reforms in the domestic wholesale and monetary system. As a consequence, despite an explicit commitment to the creation of conditions for the regulation of CMEA cooperation by means of market instruments, the strategy envisaged only a limited role for commodity-money instruments and only limited autonomy for enterprises. The main instrument for the coordination of economic policies was to remain the coordination of national plans, and bilateral trade agreements were to remain a principal means of regulating intra-bloc exchanges. Accordingly, the reform of monetary relations was limited to overcoming the shortcomings of the existing financial system which relied on the transferable rouble, by the introduction of mutual convertibility of national currencies and convertibility of the transferable rouble into other currencies, without however dismantling it completely. Similarly, despite an increase in the independence of enterprises, the central authorities were to retain considerable regulatory powers over economic relations.

Thus, despite a reformist rhetoric, the actual meaning of the common market proposal had to be understood in the context of a centrally planned economy and the planned regulation of CMEA cooperation conducted at the intergovernmental level, which made it possible for the Soviet Union to employ instruments of political pressure

on its partners. These principles also meant that despite the renunciation of the idea of a separate socialist market as a self-sufficient economic entity, enterprises still did not have the necessary instruments for the comparison of prices with conditions prevailing in world markets. Instead, the expectation was that direct cooperation between enterprises would constitute the first step in a process which would eventually lead to the introduction of commodity-money relations and mutual convertibility of currencies within the CMEA and to overcoming constraints resulting from the system of rigid bilateral agreements.

In the end, the strategy of the socialist 'common market' was not, however, implemented in practice. After mid-1988 there was a shift in Soviet policy towards the re-examination of the expediency of the maintenance of the existing model of economic cooperation with Eastern Europe within the overall foreign economic strategy. On the economic side, this was the result of domestic economic imperatives to modernise production and improve efficiency in the use of energy and raw materials. In the context of growing debt and limited exports, combined with increasing access to Western credit and technology, Soviet priorities were shifting towards imports of high quality goods from the West, not substandard East European products. Moreover, the continuing economic slowdown, structural imbalances and the steadily increasing hard currency debt of East European countries made it increasingly clear that they were unable to improve their economic performance without access to external sources of financing, which the Soviet Union was not in a position to provide. In fact to maintain the system of political control the Soviet Union would need to subsidise East European economies to the point of endangering its own national economic interests.

On the political side, the new approach to CMEA signified the reevaluation of the relative importance of Eastern Europe in Soviet foreign policy. The need to ease domestic economic problems and secure Soviet status in international politics prompted a serious re-evaluation of Soviet foreign policy objectives, which led to a series of

initiatives aimed at the improvement of relations with the West. This new policy orientation led to progress in arms reduction agreements, which opened up the prospects of the withdrawal of Soviet troops from the region, to be completed by mid-1991. The implication of these developments was the possibility of the transformation of the entire political-security balance in Europe, which would entail the diminishing strategic and political significance of East European states. From the Soviet perspective, these developments meant that there was no longer so compelling a necessity to control its allies and to maintain economic relations which were unprofitable economically but were perceived as useful for the perpetuation of political subordination.

The new Soviet perception of Eastern Europe and appropriate ways of securing its interests led to a shift in Soviet foreign policy towards securing its interests in Eastern Europe through influence rather than political domination and control. This was reflected in a new Soviet policy of non-interference in East European internal affairs and departure from the insistence on one model of development. This policy, by implication, effectively removed the threat of Soviet intervention as an excuse for conservative East European regimes for not undertaking far-reaching internal reforms and signalled to East European leaderships that they had to assume responsibility for their own political as well as their countries' economic survival.

With regard to CMEA this shift in Soviet policy towards influence rather than domination resulted in the development of a new model of economic relations based increasingly on economic rather than political criteria. This found expression in the imposition by the Soviet side of conditions on trade agreements which were aimed at the restoration of its trade balance and a reduction of transactions which were perceived as benefiting East Europeans. In accordance with this new approach the Soviet Union overturned its earlier commitments and reduced the levels of its exports of raw materials and fuels and began to accept only those East European manufactured products which satisfied high technological standards and were not relatively overpriced. Furthermore,

it substantially reduced the East European surplus in machinery exports by firmly imposing reductions in key commodity imports across the board and doubled the quota of machinery that was imported from the Soviet Union. This shift towards profitability of intra-bloc exchanges was still conducted, however, within the framework of intergovernmental agreements and a pricing system which enabled the Soviet Union to take advantage of the dependency of its partners to retain the degree of influence needed to advance its political interests.

In the period from late 1989 the primary factor in Soviet decisions towards CMEA was the need to ease the domestic economic problems of the country, which included an increasingly evident failure of economic reform and deepening economic crisis. In the light of the deteriorating economic performance it was generally accepted that only cooperation with the West could provide the capital and technology required to build a market economy and secure Soviet status in international politics. These internal economic pressures, in the context of the diminishing strategic significance of Eastern Europe resulting from progress in arms reduction agreements, led to the reassessment by the Soviet leadership of the expediency of maintaining its empire. In political terms, this process of re-evaluating Soviet foreign policy priorities found its reflection in the policy of non-intervention in the process of the disintegration of communist rule in individual East European countries. With regard to intra-bloc economic relations, the renunciation of political control meant that the economic interests of the Soviet Union were given precedence over political interests, and consequently its leadership began to consider a gradual move away from these CMEA economic mechanisms and forms of cooperation which were not based on economic criteria but were designed to engender dependence and perpetuate subordination.

The announcement of the shift towards the primacy of economic criteria in CMEA decision-making found expression in the adoption by the 2nd Congress of People's Deputies in December 1989 of a resolution to change the principles of Soviet economic

cooperation with CMEA partners from settlements in transferable roubles to trade in convertible currencies and at current world market prices. This strategy was confirmed at the 45th Session in January 1990 where the Soviet Union proposed a move to trading on a hard-currency basis at world market prices starting with the year 1991 and by the decision in March 1990 to abolish co-ordination of plans.

The Soviet Union, however, decided to proceed with the new trade arrangements only from 1 January 1991. Until then it continued to use the economic dependency of its former satellites on Soviet raw materials and markets to ensure that former bloc countries pursued pro-Soviet policies in negotiations regarding European disarmament and the new order in Europe based on the reunification of Germany. The Soviet Union's decision to abandon the existing model of economic cooperation with Eastern Europe only when the region lost its former strategic significance and Soviet security interests could be now protected without its control of Eastern Europe highlighted the role of CMEA as an instrument for securing primarily Soviet political interests in the region /maintaining Soviet political influence throughout Eastern Europe by way of its dominance of intra-bloc economic relations

Additional analysis of CMEA integration was conducted by applying the integrationist criteria set forth in the neo-functionalist paradigm, in particular Nye's neo-functionalist model. By demonstrating that the process mechanisms and the 'integrative potential' of the region which had been identified as being of crucial importance for the expansion of integration were either insignificant or had little applicability in relation to CMEA it was possible to provide additional reasons for the failure of CMEA integration.

First of all I have shown that in relation to the level of transactions, the only significant increase which took place was in a sphere of exchanges where there was an increase in the volume of intra-CMEA trade. I have noted, however, that the initial

expansion of intra-CMEA trade occurred mostly because of Soviet political pressure, and that even this expansion of trade, did not signify an expansion of integration processes, as production ties were of marginal importance and only a small percentage of intra-bloc economic exchanges resulted from specialisation and cooperation in production. After the mid-1960s, the level of exchanges was primarily a function of Soviet willingness to supply its partners with raw materials and energy in return for East European manufactured products. By the mid-1980s, however, as this model of cooperation encountered increasing barriers to growth, there was a sharp decline in the real volume of intra-CMEA trade.

Similarly, the discussion of the implementation of CMEA major programs demonstrated that there was little evidence of pressures for intensified cooperation as a result of the operation of linkages amongst sectors. On the contrary, the implementation of CMEA programs was hindered by the isolation of organisations active in different sectors of national economies, and by the isolation of organisations working in individual CMEA countries caused by the sectoral structure of the CMEA and the institutionalised separation of national economies.

As a group of process mechanisms which had little applicability to CMEA, I identified regional group formation, elite socialisation and the development of a sense of collective identity. I have shown that while coalition formation is regarded as an important potential process force, in the CMEA no informal coordination in favour of integration took place among national political leaders, central planners and interest groups because of their conflicting commercial interests, in particular the competition for hard goods, and fears among some members for their economic sovereignty. On the contrary, CMEA cooperation was characterised by the continued existence of divergent national interests articulated by different countries in the region which led to the formation of coalitions usually aimed at satisfying some particularistic rather than collective objective.

In the earlier stage the lines of division were defined by the degree of economic development, with industrially advanced countries strongly supporting specialisation on the basis of current comparative advantages which would have given them a privileged position. The less developed countries at times formed coalitions demanding improved terms of trade and investment capital for the development of sectors critical for technological progress in order to help reduce the differences in levels of economic development among the CMEA members.

From the late 1960s some countries began to form coalitions in favour of reform measures or in opposition to Soviet proposals which they saw as serving primarily Soviet interests. This was a result of new economic conditions characterised by increasing energy costs, the Soviet Union's demands regarding East European contributions to the development of its raw material base and its refusal to maintain existing levels of deliveries. In Chapters 4 and 5 I have discussed how the objectives of CPSTP conflicted with the commercial interests of East European states as exporters of machinery to the Soviet Union, and with their interest in the imports of technology from the West which were perceived as necessary for domestic economic stability.

Facing these new challenges East European countries began to look for new ways of securing their economic stability and growth and favourable terms of cooperation. As a consequence they opposed the creation of bodies and mechanisms which would encroach upon the national authorities' powers, and resisted forms of cooperation which could not contribute to their domestic objectives or which would result in unprofitable transactions. In Chapters 3 and 4, I discussed how these differences of opinion affected negotiations of the Comprehensive Program (CP) and the CPSTP. While in the case of the CP the reformist countries did not prevail on the ultimate shape of the policy, due to Soviet opposition, in the case of the CPSTP a group of East European countries successfully opposed the setting up of supranational organisational

structures which would have allowed the Soviet Union to control the implementation of their research policies.

I have also demonstrated that another process mechanism, the involvement of external actors, ultimately had a negative impact on the progress of cooperation, as trade with the non-communist world caused huge indebtedness in East European countries which put constraints on the implementation of economic policies.

Furthermore, I have demonstrated that the structural and perceptual conditions were also not conducive to integration. First of all, in terms of structural conditions, the 'integrative potential' of Soviet bloc countries was weak because of the differences in the levels of economic development, and in the natural resource endowments among individual countries and the similarity of national industrial structures. In addition, the capacity of member states to adapt and respond to signals and pressures originating in the integrative process was low, both because of the unwillingness of members to act in concert with each other, and because of their inability to do so. The former was largely due to the perception of CMEA as a primarily political rather than economic integrative device operating largely for the benefit of the Soviet Union. CMEA was perceived as fairly costly and having negative impact on the prospects of their modernisation, as CMEA specialisation involved major costs by forcing the participating East European countries to restructure their economies or to specialise in energy and material-intensive, uncompetitive industries. Successful cooperation was assured only when the countries had a real economic interest in the completion of specific undertakings. The latter was largely due to the fact that the actual power of political and economic decision-makers to control the economy was severely constrained as a result of the introduction of economic reforms giving enterprises more independence, and by the lack of workable mechanisms to implement policies effectively. The main reason for this limited capacity was inherent in the internal logic of domestic and CMEA mechanisms, which did not provide proper incentives for the development of production for export and production

specialisation. Moreover, the inadequacy of pricing policies and the lack of a convertible currency led to the bilateralism of CMEA economic relations whose negative impact on the level of intra-CMEA trade, the possibility of multilateral cooperation and ultimately the levels of production and interest in increasing exports and improvement in the quality of goods could not be overcome by integration policies formulated at the top and imposed on the ministries and enterprises.

Other structural conditions had little relevance to CMEA. For instance, interest or pressure groups which have played a major part in strengthening integrative tendencies in Western Europe were not an important factor in CMEA political and economic decision-making. One of the reasons was that the political and economic elites, including managers, were not interested in exports, and powerful interests groups under the conditions of incentives inherent in the central planning system had a vested interest in the maintenance of the status quo rather than in the introduction of new technologies or raising the standards of production. Finally, there was little value complementarity among CMEA policy-makers who since the mid-1960s began to differ over the preferred pace and direction of economic reforms and the extent of their participation in CMEA projects.

By evaluating CMEA integration against the neo-functionalist model I have demonstrated that both the process mechanisms, that normally influence political decision-makers to move towards integration, and the integrative potential of the region were relatively weak. I have argued that the main reasons for the weakness of these factors were 'structural' conditions independent of the integration process, in particular the impediments to cooperation related to the lack of effective mechanisms for participation in the international division of labor, a deficiency inherent in the internal logic of the domestic economic mechanisms of Soviet bloc countries. I have demonstrated that the persistence of ineffective mechanisms of cooperation hindered the implementation of strategies and expansion of integration in several ways. Firstly,

these mechanisms did not provide sufficient economic incentives for a rational basis for allocating resources, developing export-oriented sectors and improving the quality of manufactures. Secondly, they contributed to the continuation of the dependence on intensive and material-energy technologies and the development of industries in isolation from the requirements of world markets which led to the deterioration of technological standards of CMEA manufactures. The third negative consequence was the lack of instruments for multilateral cooperation and incentives for specialisation agreements. These limitations of the CMEA mechanism affected the performance of all CMEA members who failed to fulfil their commitments commensurate with their economic capacities, in particular with regard to the implementation of specialisation agreements.

As another factor hindering the progress of integration I identified economic constraints such as indebtedness, shortages of goods and financial constraints, and the Soviet Union's relative technological backwardness which from the beginning of the 1980s began to constrain both the capacity of CMEA members to fulfil their obligations and their interest in responding to integration pressures. These barriers resulted from the operation of the system itself and were evidence of the decreasing effectiveness of Soviet-type economies.

The third factor responsible for the failure of integration was the lack of shared values among policy-makers and no evidence of the development of a sense of collective identity. As stated earlier, the neo-functionalists regarded shared values and perceptions among policy-makers and interest groups, and the development of a sense of identity, as the prerequisites for the expansion of integration resulting from spillover. They argued that crucial to an expansion of integration processes were mutually beneficial intergovernmental bargains which resulted from a convergence of national government preferences. They claimed that once a bargain had been made, there could be an expansion of integration processes as a result of linkages amongst sectors, as

envisaged by the functionalist theory. In their view intergovernmental bargains were conditional on shared objectives with respect to proposed integration policies, and on subjective similarity - a belief on the part of the policy-makers that a similarity of objectives exists. In the CMEA case, however, there was no shared perception among its members that a greater involvement in integration would be beneficial for their economic policy goals. This was partly the result of the pursuit of nationalist economic policies and partly of the East Europeans' perceptions of CMEA projects as the Soviet Union's attempts at subordinating CMEA to its objectives and detrimental to their commercial interests or jeopardising their long-term economic stability.

The combination of inadequate economic mechanisms and the absence of the perception that a greater participation in CMEA cooperation would be beneficial for their economies meant that CMEA members were unable to respond constructively to pressures from the global economy and to growing economic competition from Western economies and implement common policies in order to attain economies of scale and the technological capability essential to compete successfully in world markets.

Instead, East European countries tried to avoid participation in projects which were perceived as conflicting with their domestic economic policies and their commercial interests as exporters of machinery to the Soviet market. For instance East European countries minimised their contribution to the implementation of the CPSTP which could have led to the acquisition by the Soviet Union of the results of East European technological research and consequently to the decrease of their exports. Also, the low technical level of Soviet products made them more interested in the purchase of Western technology.

The discussion in this thesis presented the outcomes of cooperation as the result of the rational actions of individual countries seeking to maximise the benefits to be derived from cooperation within the constraints imposed on CMEA by Soviet

domination and the institutional limitations to integration imposed by the central planning system. I have demonstrated that the failure of CMEA integration was caused by the lack of effective mechanisms of cooperation, the decreasing effectiveness of Soviet-type economies and the resistance of East European countries to the Soviet Union's attempts at subordinating CMEA to its objectives. As the institutional arrangements of the economic system of CMEA members were imposed by the Soviet Union, CMEA failure can be explained as a result of the Soviet political leadership's unwillingness and inability to bring about the necessary changes in political and economic structures which would have enabled the introduction of mechanisms allowing intensive growth based on technological innovation. Thus, the analysis supports the main argument of this thesis that, ultimately, the factors which were primarily responsible for the failure of the CMEA were the constraints on its operation imposed as a result of CMEA's functions of securing effective Soviet control over the region and the primacy of political criteria in Soviet decision-making which hampered the creation of the conditions necessary for successful cooperation.

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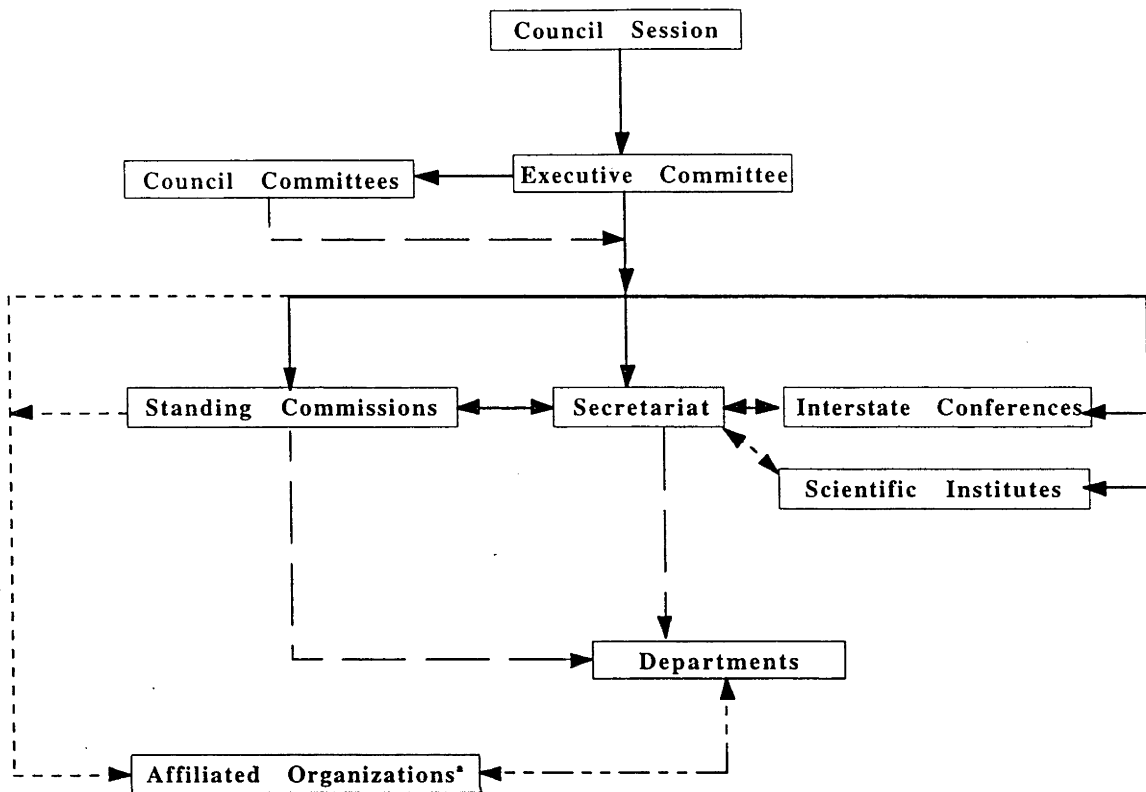
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CMEA ORGANIZATION CHART



*Interstate economic organizations; International economic organizations; International economic associations; International nongovernmental organizations

—————	Relations of superiority and subordination
- - - - -	Advisory relationships
— — — — —	Functional relationships
- . - . - .	Typological relationships
- - - - -	Other relationships

Source: Based on Brabant, 1987a, p.57

APPENDIX TABLE 1

SHARE OF TOTAL SOVIET AND EAST EUROPEAN IMPORTS FROM EUROPEAN CMEA COUNTRIES (IN %)

Country	1950	1960	1970	1975	1980	1984	1985	1986	1987	1988	1989	1990	1991
Bulgaria	85.8	80.5	73.0	69.0	75.0	59.8	56.0	57.6	58.6	50.0	45.9	46.2	49.0
Czechoslovakia	54.9	64.3	63.0	64.0	65.0	60.4	49.6	57.9	54.5	49.5	47.8	38.2	37.5
GDR	76.0	67.0	66.0	63.0	59.0	42.5	46.5	48.4	43.2	38.1	34.2	19.9	-
Hungary	56.6	64.8	62.0	63.0	47.0	48.0	49.3	50.7	47.2	43.7	39.1	33.7	22.2
Poland	60.8	57.2	65.0	43.0	53.0	54.2	52.8	57.5	51.2	43.0	38.0	33.7	18.9
Romania	78.1	67.9	48.0	37.0	31.0	30.1	32.5	45.8	40.0	41.6	37.3	27.8	23.9
Eastern Europe Total	64.0	59.5	63.0	56.0	55.0	49.2	49.7	53.2	49.1	43.8	39.7	32.6	25.6
USSR	62.2	51.1	56.0	42.0	43.0	30.6	32.1	36.9	36.9	31.2	26.3	23.1	19.3

Source: Calculated from Totals expressed in current \$US based on national foreign trade statistics published by Secretariat of UN Economic Commission for Europe, *Economic Bulletin for Europe*, 1992, 133; *Economic Bulletin for Europe*, 1993, 64.
Bozyk 1977, 111, 393.

APPENDIX TABLE 2

SHARE OF TOTAL SOVIET AND EAST EUROPEAN EXPORTS TO EUROPEAN CMEA COUNTRIES (IN %)

Country	1950	1960	1970	1975	1980	1984	1985	1986	1987	1988	1989	1990	1991
Bulgaria	91.8	80.9	76.0	75.0	66.0	54.0	56.1	65.7	62.5	60.9	62.2	53.3	54.9
Czechoslovakia	54.1	64.0	64.0	65.0	63.0	53.2	53.0	54.8	54.1	50.5	46.6	36.9	32.8
GDR	68.0	69.0	68.0	68.0	64.0	41.0	38.1	44.3	44.2	41.3	37.6	35.3	-
Hungary	66.0	61.6	62.0	68.0	50.0	48.3	52.3	53.9	50.0	44.6	40.9	31.2	19.1
Poland	55.9	55.2	60.0	57.0	52.0	44.9	46.6	49.2	47.0	43.0	40.8	33.3	16.8
Romania	89.2	65.9	50.0	38.0	37.0	21.8	27.0	32.8	28.4	25.4	24.6	23.8	28.2
Eastern Europe Total	61.4	62.1	64.0	63.0	56.0	43.3	44.6	49.5	47.4	43.8	41.3	36.6	26.3
USSR	58.1	57.5	53.0	49.0	42.0	28.1	31.5	36.5	31.3	27.5	24.3	18.7	19.7

Source: Calculated from Totals expressed in current \$US based on national foreign trade statistics published by Secretariat of UN Economic Commission for Europe, *Economic Bulletin for Europe*, 1992, 133; *Economic Bulletin for Europe*, 1993, 64.
Bozyk 1977, 111, 393.

APPENDIX TABLE 3
EASTERN EUROPE AND THE SOVIET UNION: EXPORTS BY MAIN DIRECTIONS, 1985—1992
(Value, billion US dollars)

Country	1985	1986	1987	1988	1989	1990	1991	1992
Eastern Europe								
Total	28.35	33.24	32.73	30.41	27.70	23.79	15.40	8.40
– ECE-East								
Soviet Union	18.09	21.93	19.90	17.07	15.17	11.10	9.23	7.80
– ECE-East								

Source: Calculated from Totals expressed in current \$US based on national foreign trade statistics published by Secretariat of UN Economic Commission for Europe, *Economic Bulletin for Europe*, 1992, 133; *Economic Bulletin for Europe*, 1993, 64.

Note: ECE-East — Soviet Union and East European former member countries of the CMEA.

APPENDIX TABLE 4
EASTERN EUROPE AND THE SOVIET UNION: IMPORTS BY MAIN DIRECTIONS, 1985—1992
(Value, billion US dollars)

Country	1985	1986	1987	1988	1989	1990	1991	1992
Eastern Europe								
Total	28.98	35.10	32.61	28.38	25.24	21.28	15.90	11.00
– ECE-East								
Soviet Union	17.59	20.34	19.87	18.15	17.12	15.04	8.77	5.50
– ECE-East								

Source: Calculated from Totals expressed in current \$US based on national foreign trade statistics published by Secretariat of UN Economic Commission for Europe, *Economic Bulletin for Europe*, 1992, 133; *Economic Bulletin for Europe*, 1993, 64.

Note: ECE-East — Soviet Union and East European former member countries of the CMEA.